

AGENDA

COMMITTEE ON FINANCE

Meeting: 9:00 a.m., Wednesday, March 14, 2007
Glenn S. Dumke Auditorium

William Hauck, Chair
Moctesuma Esparza, Vice Chair
Herbert L. Carter
Carol R. Chandler
Kenneth Fong
Melinda Guzman
Raymond W. Holdsworth
Ricardo F. Icaza
Andrew LaFlamme
A. Robert Linscheid
Craig R. Smith
Glen O. Toney

Consent Item

Approval of Minutes of Meeting of January 24, 2007

Discussion Items

1. Report on the 2007-2008 California State University Support Budget, *Information*
2. State University Fee Increase, *Action*
3. Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for Various Projects, *Action*
4. Systemwide Revenue Bond Program — Funds and Investments, *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**

January 24, 2006

Members Present

William Hauck, Chair
Moctesuma Esparza, Vice Chair
Roberta Achtenberg, Chair of the Board
Herbert L. Carter
Carol R. Chandler
Kenneth Fong
Melinda Guzman
Raymond W. Holdsworth
Andrew LaFlamme
A. Robert Linscheid
Charles B. Reed, Chancellor
Craig R. Smith
Glen O. Toney

Approval of Minutes

The minutes of November 14, 2006 were approved.

Report on the 2007-2008 Support Budget

Trustee Hauck introduced Mr. Patrick Lenz, Assistant Vice Chancellor for Budget, and asked him to present the report.

Using a PowerPoint slide presentation, Mr. Lenz updated the committee with an overview of the Governor's January 10, 2007-2008 state budget including overall assumptions on the fiscal condition of the state, statewide funding priorities, and an update of the specific budget allocations for the California State University.

The following is a synopsis of Mr. Lenz' presentation:

The Governor's 2007-2008 budget proposal calls for a \$299.5 million increase for the CSU. The proposal would fully fund the trustees' budget request for 2007-2008 based on the Higher Education Compact. It provides a four percent or \$108.9 million increase fore general

operations, \$65.5 million for a 2.5 percent enrollment growth, and \$82.8 million for a three percent compensation pool for all employee groups. The Governor's proposal also assumes a 10 percent increase in student fees.

Regarding compensation, the CSU had requested an additional one percent funding above the compact to fund a multi-year plan to reduce the salary lags between CSU employees and national benchmarks. Although this request (totaling \$27.6) million was not made part of the governor's proposal, it is a major Systemwide priority and CSU will continue to seek the additional one percent from the legislature. In addition, we will continue to press for funding above the compact for improved student services critical to facilitating student graduation (\$24.6 million), and the restoration of outreach program reductions (\$7 million) that provide tutoring, mentoring, counseling, and financial aid advice.

Trustee Chandler asked about the impact of the \$7 million decrease in outreach funding. Chancellor Reed said he felt reasonably sure the legislature would eventually restore the funding, but that it won't be an easy task and it is by no means a certainty.

Mr. Lenz concluded noting that the overwhelming competing budget priorities and lack of state general funds is going to present quite a challenge for CSU to augment many of its budget priorities above the compact. In the past, CSU has been successful in securing additional funding above the compact for priority programs through the legislative process. He indicated since the legislative process is just beginning and will continue until July, the possibility of changes, both pro and con for CSU is still uncertain.

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

Mr. Dennis Hordyk, Assistant Vice Chancellor, Financial Services explained the purpose of the item was to request authorization for issuance of Systemwide Revenue Bonds (SRB) and interim financing under the CSU's commercial paper program in an aggregate amount not-to-exceed \$280,785,000 to provide funds for refundings of five senior debt Student Unions, refundings of the California State University, Channel Islands (CSUCI) Financing Authority debt, and refundings of two auxiliary organizations' bonds.

Mr. Hordyk reviewed the contents of the item as presented in the written agenda. He said in order to facilitate flexibility, the Board was being asked to approve a single, separate resolution for the five senior debt Student Unions, a single, separate resolution for the CSUCI Financing Authority debt, and separate resolutions for both of the auxiliary organizations; bonds.

Mr. Hordyk noted the refinancings would result in significant fiscal and administrative savings to the system because of the new revenue management program that was not in place when these projects were originally introduced. He further explained since they were all refinancing

requests, there would be minimal impact on the Systemwide debt since the debt is already included in our financial statements and our debt capacity.

Trustee Hauck thanked Mr. Hordyk, Mr. West, and staff on work well done. He credited the positive results of the refinancings not only to favorable financing terms, but also to the Systemwide revenue bond program, which has been an outstanding program.

The committee recommended approval of the proposed resolution (RFIN 01-07-01).

Public/Private Partnership Residential Condominiums and Hotel and Conference Center Project at California State University, Bakersfield

Mr. Hordyk explained the CSU, Bakersfield campus was seeking conceptual approval of a public/private partnership for a mixed-use development project on the Bakersfield campus. He presented the background details and project description as presented in the written agenda item.

Mr. Hordyk reported the campus has received six responses to an RFP issued in February 2006, and selected three proposals for further review and consideration. He noted the campus received a proposal from a local developer (Crisp & Cole) for the development of twin 31-story towers, including high-rise luxury condominiums, a four star hotel and conference center, office space, and a retail center, a \$300-400 million project. The proposal also included a 700-space parking garage, estimated at \$14 million.

Dr. Horace Mitchell, President, CSU, Bakersfield, addressed the committee. Dr. Mitchell focused on the education benefits of the project. He explained the proposed project would provide an opportunity for the development of student employment and internships in management, communications, accounting, and marketing as well provide stimulus for the establishment of new or expanded CSU, Bakersfield degree programs.

Trustee Linscheid asked if a study had been done on present market demand and if there was a strategy, i.e., a certain number of pre-leasing letters of intent in hand before proceeding. President Mitchell said a study had been performed revealing pre-leasing expectations at approximately 50%.

Trustee Galinson added it is rare that a developer does not believe a project will go well, and that receipt of non-binding letters of intent does not guarantee they will develop into actual leases. He stressed it would be important to exercise caution in proceeding with the project.

Trustee Hauck observed this was a very ambitious and potentially risky project and there was a great deal about it that warrants further conversation.

President Mitchell acknowledged the trustees' concerns noting the item was presented to the committee for conceptual approval only at this time. He explained if negotiations with the

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current developer do not result in an acceptable development plan, then the campus will continue to pursue development opportunities with other developers for creation of a similar type of project.

He thanked the committee for their guidance and support and noted the project would return at a later date for further discussion.

The committee recommended approval of the proposed resolution (RFIN 01-07-02).

Approval of Loan for Construction of California State University, San Bernardino Palm Desert Health Sciences Center

Mr. Hordyk reviewed the item noting it was a request by the CSU, San Bernardino campus to approve a short-term auxiliary financing in an amount not-to-exceed \$3.5 million. The San Bernardino campus has been conducting a fund-raising campaign to provide funds to construct the Palm Desert Health Sciences Center. The funding campaign has been successfully completed along with the design for the building that was approved last year at the May board meeting.

Mr. Hordyk noted a successful bid has been received for the project. Funds for the project are coming from several funding agreements entered into among the Foundation for CSU, San Bernardino and various cities, agencies, foundations, and a few individuals.

The campus desires to begin construction of the building at this time and has reached agreement with the Francis Berger Foundation to provide a short-term loan of \$3.5 million to the Foundation to provide interim funding needed to complete the project.

Dr. Albert K. Karnig, President, CSU, San Bernardino, briefly addressed the committee providing background on the development and fundraising aspects of the project. He thanked his staff, and Mr. Hordyk and his staff for their outstanding work related to this project.

The committee recommended approval of the proposed resolution (RFIN 01-07-03).

Trustee Hauck added his compliments on the program and on a job well done and concluded the meeting.

COMMITTEE ON FINANCE

Report on the 2007-2008 California State University Support Budget

Presented by

Richard P. West
Executive Vice Chancellor and
Chief Financial Officer

Patrick J. Lenz
Assistant Vice Chancellor
Budget

Summary

The Board will be provided with an update of the state's fiscal condition, the Legislative Analyst Office's (LAO) recommendations on the overall state budget and the CSU budget, and the 2007-08 legislative budget process.

2007-08 CSU Support Budget

In January, Governor Schwarzenegger presented his 2007-08 state budget to the legislature. At that time the Legislative Analyst (LAO) raised concerns that the budget was not balanced and addressed the fiscal solvency of the state. The LAO recently released its analysis of the state budget and concluded that state expenditures will exceed revenues by \$2.6 billion, offset by the state's budget reserve, which leaves the state with an operating deficit of \$726 million. Barring any structural changes to the budget, the LAO predicts the state will continue to have an operating deficit of \$3.4 billion in 2008-09, \$2.5 billion in 2009-10, and \$1.4 billion in 2010-11.

The Legislative Analyst also indicated her concern about revenue assumptions, including \$3.4 billion in budget actions, that may be difficult to achieve. She identified \$1.2 billion less in revenue and greater expenditures than anticipated in the budget, and \$1 billion not included from two court cases on appeal where the state has already lost in Superior Court. There are other fiscal issues that may supersede most budget augmentation requests, such as the assumption on the property tax revenue to support Proposition 98 and federally mandated corrections spending. If the state is compelled to address these issues and additional General Fund resources are not forthcoming as a result of the May Revise, the CSU will have to compete with other state budget priorities.

The LAO also had specific recommendations regarding the CSU budget including:

- **Outreach Programs.** Withhold recommendation on the proposed reduction to CSU's outreach programs, pending LAO review of an evaluation of the programs to be submitted in March. If the legislature decides to restore funding for this purpose, the LAO recommends requiring an external evaluation of the programs. Also, as an alternative approach for funding and delivering outreach services, the legislature could establish a College Preparation Block Grant targeted at K-12 schools with very low college participation rates.
- **Enrollment Growth.** Recommend the legislature fund 2 percent budgeted enrollment growth, which in the LAO's view should allow CSU to accommodate enrollment growth next year due to increases in population, as well as modest increases in college participation.
- **Marginal Cost Funding.** Recommend the legislature fund enrollment growth based on the marginal cost methodology it developed and approved as part of the 2006-07 budget. Using this methodology and the LAO proposed 2 percent enrollment growth, the LAO proposes deleting \$13.9 million from the \$65.5 million requested for enrollment growth. In the LAO's view, this would leave sufficient funding to provide \$7,710 for each additional student. Further the LAO recommends that the legislature (1) amend the proposed budget bill language to reflect this marginal cost rate and (2) adopt supplemental report language specifying that enrollment funding provided in future budgets be based on the legislative methodology.
- **Student Fees.** Absent an explicit statewide student fee policy, the LAO recommends the current share of educational costs borne by students through fees be maintained in 2007-08. The Analyst estimates this would entail a modest systemwide fee increase of 2.4 percent, which is the projection of inflation for the budget year.
- **Nursing Programs.** Recommend the legislature take a more consistent approach to funding for nursing enrollment. Specifically, the LAO recommends (1) counting nursing students toward the overall growth target, whatever it might be, and (2) providing additional funding above the marginal cost amount in recognition of high nursing program costs. For CSU, this means increasing funding for the 340 additional BSN students to \$10,600 per FTES (which is the same amount CSU received for 35 BSN students last year). This would require an additional \$939,000.
- **General Fund Base Increase.** Based on inflation projections for 2007-08, the LAO recommends the legislature reduce the General Fund base increase proposed by the Governor from 4 percent to 2.4 percent. LAO recommends deleting \$43.6 million from the \$108.9 million General Fund augmentation.
- **Science and Math Initiative.** Withhold recommendation on the proposed \$2 million augmentation to the Governor's science and math initiative, pending review of CSU's progress report to be submitted in April.

- ***Long Range Planning.*** The LAO extends most of their recommendations to CSU from the recent LAO report on UC's long range development planning process. For example, the LAO recommends CSU provide draft copies of its physical master plans to the legislature before they are approved by the Trustees. Further recommend CSU provide systemwide enrollment projections through 2020 at budget hearings. Finally, the LAO recommends CSU report on what steps it will take to mitigate off-campus impacts, given the recent court decision in *City of Marina v. CSU Trustees*.
- ***Capital Outlay.*** The LAO does not take issue with any CSU capital outlay proposals.
- ***CPEC—Faculty Compensation Surveys.*** The LAO finds that CPEC's current faculty salary surveys for UC and CSU are flawed and misleading, and recommend instead that the legislature direct CPEC to produce faculty compensation surveys that (1) include all forms of compensation and (2) compare UC and CSU faculty compensation to that of a broad range of institutions.
- ***CSAC—APLE Awards.*** The LAO recommends the legislature again reject the Governor's proposal to restrict 600 APLE awards to UC and CSU students participating in the Governor's Science and Math Teacher Initiative.

Finally, the legislature will begin its deliberations in the budget subcommittees on the 2007-08 state budget beginning the first week of March. The Assembly budget subcommittee will be presented with an overview by Chancellor Reed on March 6 with discussion on specific issues related to the CSU budget at a later date. The Senate budget subcommittee will be presented with an overview by Chancellor Reed on April 17 with discussion of specific budget issues and the LAO recommendation to commence on that day. It is unlikely that major decisions on the CSU budget will occur before the Governor releases his revision to the state budget on May 15, 2007.

Conclusion

At the time of the March Board meeting, the Chancellor's Office will provide CSU's response to the LAO recommendations. This is an information item on the discussion of the 2007-08 CSU budget, the LAO recommendations, and the legislative budget process.

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COMMITTEE ON FINANCE

State University Fee Increase

Presentation By

Richard P. West
Executive Vice Chancellor and
Chief Financial Officer

Patrick J. Lenz
Assistant Vice Chancellor
Budget

Summary

For 2007-08, the Governor's budget assumes \$174.5 million from the state General Fund and \$123 million in fee revenue to support full funding of the Compact as approved by the Board of Trustees at its November 2006 meeting. Of the \$123 million associated with fee revenue, \$25.2 million is due to a funded enrollment increase of 2.5 percent, and \$97.7 million is revenue generated from a 10 percent increase in fee rates for the 2007-08 academic year. The budget assumes one-third of revenue associated with the marginal cost of enrollment growth and fee rate increases (approximately \$38 million) will be set aside for student financial aid grants.

The Board has the authority to establish, adjust, and abolish systemwide fees. The Compact agreement proposed fee increases for CSU undergraduate students that averaged 10 percent over the first three years of the compact. Fees were raised 14 percent in 2004-05, 8 percent in 2005-06 and there was no increase in 2006-07, for a three year average of just over 7 percent. The Budget Act of 2006 included General Fund increases to the CSU base by an amount equal to net available revenue from an 8 percent undergraduate and 10 percent graduate fee increase.

The higher education Compact Agreement provides that the Board of Trustees should implement fee increases through 2010-11 that ensure the stability and quality of CSU support budget operations. While the Compact recommends that undergraduate fee increases align with the change in the California Per Capita Personal Income index, it acknowledges that fiscal exigencies may require fee increases to exceed this index up to a maximum of 10 percent in any given year. The Trustees priority to achieve market-equitable compensation for University employees and reduce outstanding salary lags require that the maximum 10 percent increase be authorized for the 2007-08 fiscal year.

A 10 percent increase in the State University Fee for 2007-08 would increase academic year undergraduate fees by \$252 and graduate fees by \$312. CSU will set aside \$38 million from the fee increase and enrollment growth revenue for the State University Grant pool to cover the fee rate increase for students with need. This pool is administered centrally and is allocated to campuses based on student need.

Assuming a 2007-08 undergraduate fee rate of \$2,772, and including the \$679 average campus-based fees students currently pay, the total undergraduate academic year fee of \$3,421 would continue to be lower than the lowest CSU public comparison institution and significantly less than the average fee of all the California State University public comparison institutions for 2006-07. Comparison institution fee data for 2007-08 is not currently available.

**2006/07 CSU Comparison Institution
 Academic year Resident Undergraduate, Student Fee Levels**

University	2007/08	2006/07	2005/06
Rutgers University (Newark, NJ)		\$9,994	\$9,221
University of Connecticut (Storrs, CT)		8,660	7,912
University of Maryland, Baltimore County		8,622	8,520
Illinois State University (Normal, IL)		8,039	6,801
Cleveland State University		7,920	7,158
Wayne State University (Detroit, MI)		7,300	6,898
State University of New York at Albany		6,727	6,604
University of Wisconsin at Milwaukee		6,630	6,224
Comparison Average¹		6,665	6,132
George Mason University (Fairfax, VA)		6,408	5,880
University of Texas at Arlington		6,400	5,693
University of Colorado at Denver		5,300	4,611
Georgia State University at Atlanta		4,818	4,464
North Carolina State University		4,781	4,318
Arizona State University at Tempe		4,690	4,408
University of Nevada at Reno		3,684	3,270
California State University	3,421	3,199	3,164

¹Average does not include CSU

The recommendation before the Board is to increase State University Fee rates for undergraduates by \$252 to \$2,772, for qualified credential program participants by \$294 to \$3,216, and for all other post-baccalaureate and graduate students by \$312 to \$3,414 for the 2007-08 academic year. One third of the revenue from these fee increases will be set aside for State University Grant financial aid. The Education Doctorate program fee rate approved by the Board at the November 2006 meeting, which by law is linked to the University of California graduate student fee rate, is not affected by this action.

2007-08 State University Fee Level

State University Fee Increase

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 2007 and until further amended:

State University Fees

<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	\$2,772	\$3,216	\$3,414
0 to 6.0	\$1,608	\$1,866	\$1,980

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 the 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/FeeEnrll_Info/FeeInfo/Campus_Mand_Fees/Fee_Schedules.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

RESOLVED, That the Chancellor is delegated authority to further adopt, amend, or repeal the State University Fee increase if 2007-08 budget action is taken by the Governor and legislature to buy out any or all of the fee rate increase, and be it further

RESOLVED, That if action is taken in the 20078-08 state budget to provide funding that partially or completely buys out the fee increase the Chancellor shall repeal that portion or all of the fee increase and that such changes made by the Chancellor will be communicated promptly to the Trustees.

COMMITTEE ON FINANCE

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

Presentation By

Dennis Hordyk
Assistant Vice Chancellor
Financial Services

Summary

This item requests the Board of Trustees to authorize the issuance of Systemwide Revenue Bonds and the issuance of interim financing under the CSU's commercial paper program in an aggregate amount not-to-exceed \$88,145,000 to provide funds for two projects. The Board is being asked to approve resolutions relating to these projects. The long-term bonds will be part of a future Systemwide Revenue Bond sale and are expected to bear the same ratings from Moody's Investors Service and Standard and Poor's Corporation as the existing Systemwide Revenue program bonds.

The projects are as follows:

1. San Francisco Housing Acquisitions of Villas at Park Merced and the Village at Centennial Square

The Board of Trustees during its meeting of the Committee on Campus Planning, Buildings and Grounds is being asked to approve the campus master plan revision and amendment of its non-state capital outlay program for the real estate acquisition of the Villas at Park Merced (also referenced as Lots 1, 2, 5, and 6) and the Committee on Finance is being asked to approve the financing related to this acquisition. Additionally, the Committee on Finance is also being asked to approve the financing of the real estate acquisition of the Village at Centennial Square. Both properties are presently owned by the San Francisco State University Foundation.

The Villas at Park Merced consists of 180 garden apartment units in eight buildings located on 7.61 acres immediately south of the campus along Holloway Avenue. The Village at Centennial Square is located in the southwest part of the campus immediately south of an existing residence apartment facility and includes residence hall facilities of 190 two and three bedroom units (housing 762 students), a student services building containing approximately 50,000 square feet of space, and a parking garage containing approximately 90 spaces. The facilities are located on approximately 3.85 acres. These acquisitions from the SFSU Foundation are being pursued

because the campus is seeking to consolidate housing operations to optimize the use of available housing space for the benefit of its students. The campus is focusing on improving its housing coordination and control by achieving administrative and general expense cost savings through the consolidation of management and services.

In order to acquire the properties, the Board is being asked to approve a not-to-exceed par amount of \$81,625,000 for the refinancing of two series of bonds of the San Francisco State University Foundation. Currently the Villas at Park Merced has \$35,175,000 bonds outstanding, which were issued in 2001. The Village at Centennial Square has \$44,690,000 bonds outstanding, which were issued in 1999, along with an outstanding developer's note of approximately \$3,150,000. The campus wishes to extend the terms of the new bonds to 30 years in an effort to make the facilities more profitable on a go forward basis, and to finance the outstanding developer's note.

Based on market conditions at February 21, 2007 (average coupon rate of 4.43%), the refinancing of the two bond series is estimated to generate a combined net present value savings of \$1,153,877. However, if market conditions change and the coupon rate increases by 25 basis points, the refinancings will have a combined net present value loss of approximately \$306,106. The refinancing breakeven position would be at a 20 basis point increase above current market rate conditions. Although the Trustees generally expect to achieve a 3% net present value savings when refinancing existing debt, the campus believes that the operating efficiencies to be gained from these refinancings outweigh the relatively small economic net present value loss. Further, the campus housing program has committed its resources should a shortfall occur and the programmatic benefits to be achieved by having these facilities operated as a part of the campus-based housing program make this acquisition and resultant refinancing desirable.

The following table provides information about this financing transaction.

Not-to-exceed amount	\$81,625,000
Amortization	Approximately level over 30 years
Pro-forma maximum annual expected debt service	\$5,205,416
Projected debt service coverage including the new project: ¹	
Net revenue – All San Francisco pledged revenue programs:	1.46
Net revenue – Projected for the campus Housing program:	1.37

1. Projected information – Combines the 2005/06 unaudited information for the campus-pledged revenue programs and 2007/08 operations of the refinanced projects with expected full debt service.

The not-to-exceed amount for the project totaling \$81,625,000, the maximum annual debt service, and the ratios above are based on an expected debt service at the current interest rate plus 25 basis points (computed average coupon of 4.68%, as of February 21, 2007), which provides a modest safeguard to be used if needed 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 our CSU program standard. The campus has submitted a financial plan that has a 1.37 projected program net revenue debt service coverage, which meets the CSU benchmark of 1.10. The campus combined net revenue debt service coverage from all pledged revenue programs for the campus is projected at 1.46 which is meets our 1.35 times debt service campus benchmark.

2. Auxiliary Financing for California State University, Sacramento – University Enterprises Inc. -- The Broad Athletic Facility Project - Phase I

The Board of Trustees previously approved at its March 2006 meeting an amendment to the non-state capital outlay program and schematic plans for the Broad Athletic Facility project. As the first of a four-phase complex comprising the Recreation, Wellness & Event Center, the Broad Athletic Facility Project (the “Project”) will involve the construction of a new athletic training facility that will replace an existing field house, which no longer meets the programmatic and space needs of the university.

The project will be a two-story building comprising approximately 27,000 GSF, providing space for strength and conditioning weight room, coaches’ offices, meeting rooms, sports medicine, and locker rooms for football and track and field programs. The project will completely build-out the first floor space, with approximately 9,000 GSF of shell space on the second floor to be completed with future donor funds.

The total project construction cost is \$9,968,000, of which \$3,500,000 will be funded from donations provided by private donors, and the remainder financed by SRB bonds at a not-to-exceed par amount of \$6,520,000. At the time of this writing, construction bids were expected on February 28, 2007, with construction to begin in May 2007 and completed in January 2008.

The bonds will carry a general obligation pledge of University Enterprise Inc.’s (an authorized auxiliary organization of the Sacramento campus) unrestricted revenues and be on parity with existing auxiliary debt. The bonds will be amortized over 25 years based on level debt service repayments, with a maximum debt service of \$453,637. Based on the financial plan submitted, the auxiliary exhibits good debt service coverage (1.48 times for UEI and 1.83 times for the Project), well exceeding the CSU benchmark of 1.25 for both auxiliary and auxiliary stand-alone projects. The bond par amount was based on an average coupon of 4.89% (as of February 16, 2007), reflective of market scale plus 50 basis points as a cushion to account for any market fluctuations that could occur before the permanent financing bonds are sold.

While authorization for long-term SRB bonds is being proposed, the current plan is to keep the project in commercial paper and amortize the debt over a 5-10 year period by applying anticipated donor funds to pay down commercial paper. The proposed bond authorization will allow CSU to retain the flexibility to issue long-term bonds to amortize the debt over 25 years if necessary. It should be noted that, in the event that it is determined to keep the project in commercial paper beyond 3 years, additional authorization would be necessary from the Trustees, since under current law, the bond anticipation notes which secure commercial paper may be authorized for no more than 3 years. In the event additional approval is not obtained, bonds would be issued prior to the end of 3 years to redeem the remaining commercial paper.

Trustee Resolutions and Recommended Action

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

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 an amount not-to-exceed \$88,145,000 and certain actions relating thereto.
2. Provide a delegation to the Chancellor; the Executive Vice Chancellor and Chief Financial Officer; the Assistant Vice Chancellor, Financial Services; and the Senior Director, Financing and Treasury; and their designees to take any and all necessary actions to execute documents for the sale and issuance of the bond anticipation notes and the revenue bonds.

Approval of the financing resolutions for the projects as described in this Agenda Item 3 of the Finance Committee of the March 13-14, 2007 meeting of the CSU Board of Trustees is recommended for:

San Francisco Housing Acquisitions of Villas at Park Merced and the Village at Centennial Square

**California State University, Sacramento – University Enterprises Inc.
Broad Athletic Facility Project Phase I**

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Action Item

Agenda Item 4

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COMMITTEE ON FINANCE

Systemwide Revenue Bond Program — Funds and Investments

Presentation By

Dennis Hordyk
Assistant Vice Chancellor
Financial Services

Summary

This item requests the Board of Trustees to authorize supplemental provisions to the Systemwide Revenue Bond (“SRB”) Indenture in order to better implement the Board's responsibilities under the State University Revenue Bond Act of 1947 in a manner consistent with the new Revenue Management Program.

Background

Pursuant to the State University Revenue Bond Act of 1947, the California State University has authority to enter into an indenture and issue revenue bonds to finance a variety of projects, such as housing facilities, student unions, vehicle parking facilities, alternative transportation programs, and any other auxiliary or supplementary facilities for use by students, faculty members, or other employees of the California State University. These authorities are codified in California Education Code Sections 90010-90081. In addition, the Systemwide Revenue Bond indenture, under which the Trustees issue revenue bonds, refers directly to these sections of the Education Code. The current indenture for the Systemwide Revenue Bonds was originally adopted in 2002, and is supplemented with each new issuance of SRB bonds.

Key Provisions in the CSU Revenue Bond Act

The State Legislature has authorized the Board to control and manage its revenue bond program through several key provisions in the Bond Act. For example, under Section 90036 the Board may provide for deposit of revenues derived from financed projects into the CSU Dormitory Revenue Fund in the State Treasury ("DRF"). In the past, most revenues were deposited into the DRF and under Section 90036 any moneys in the DRF must be disbursed as provided in the indenture. The Act also permits deposits of revenues into funds and accounts other than the DRF. For example, under Section 90037 the Board must prescribe the duties and powers of the State Treasurer (who is bond trustee under Section 90036) concerning the management of funds provided as security for the bonds. Section 90074 provides that revenues are transmitted from the Board to the Treasurer only to the extent and in the manner provided in the indenture or a

Board resolution. It also provides that moneys in the DRF may be used for any purposes authorized by resolution of the Board, subject to any restrictions provided by law or the indenture. Section 90075 provides for the State Treasurer to apply moneys from the DRF to pay debt service on the bonds. Finally, Section 90076 provides that surplus funds may be used for purposes incidental to the financed projects, as determined by the Board. Thus, under the Bond Act it is the Board's responsibility to establish funds and accounts and provide for their management (e.g., the timing and amounts of deposits and withdrawals) and investment under the bond indenture.

CSU's Systemwide Revenue Bond Indenture

The Board principally manages these statutory responsibilities through provisions in its Systemwide Revenue Bond Indenture ("SRB Indenture"). For example, the SRB Indenture pledges revenues to secure the bonds, specifies where revenues are to be held and how they are invested, provides for the appropriate amount of revenues to be transferred periodically to the DRF so that the State Treasurer can pay debt service on the bonds, and provides that surplus revenues are to be applied to lawful purposes of the Board. At this time, it is desirable to stipulate some of those purposes for which the Board has determined that DRF moneys can be used. Since its creation in 2002, the SRB Indenture has required the Board to deposit and invest funds that are pledged to secure its bonds in a Gross Revenue Fund held by the Board.

With the implementation of the Revenue Management Program and the initiation of the Trustees' banking relationship with Wells Fargo Bank, revenues and expenditures from programs pledged under the SRB Indenture began flowing through Trustees' campus bank accounts. It is appropriate for this process to be more explicitly provided in the SRB Indenture.

In addition, under the authority granted by the Standing Orders of the Board of Trustees, Executive Vice Chancellor Richard West has authorized the establishment of demand deposit accounts with Wells Fargo Bank for the CSU campuses in January 2007. As the Board exercises its authority to hold and invest funds in CSU trust funds outside the State Treasury, it is appropriate to make more explicit provision in the SRB Indenture for these types of funds and investments.

Trustee Resolution and Recommended Action

Orrick, Herrington & Sutcliffe LLP, as bond counsel, has prepared the resolution below to authorize a supplemental indenture for the purposes described above. Specifically, the resolution authorizes and directs the execution and delivery of a supplemental SRB Indenture that will achieve the following purposes, as required under the Bond Act:

- 1) Surplus funds held pursuant to Section 5.02 of the SRB Indenture shall be expressly authorized to be used for lawful purposes of the Board, including the following:
 - a) pre-construction planning and construction expenditures for new campus projects whose revenues will be pledged to the SRB;
 - b) major and regular maintenance and repair expense reserves for projects whose revenues are pledged to the SRB;
 - c) the purchase of new facilities whose revenues will be pledged to the SRB;
 - d) the purchase of equipment and furnishings to be utilized in support of projects whose revenues will be pledged to the SRB;
 - e) any incidental costs related to operations and administration of SRB programs; and
 - f) the redemption of SRB bonds prior to maturity.
2. Moneys on deposit in the Gross Revenue Fund or any other fund or account established and held by the Board under the SRB Indenture shall be invested in any lawful investment for funds of the Board, which shall include demand depository accounts with Wells Fargo Bank, or any other banking institution selected by the Chancellor, and other investment accounts with other investment managers under contract with the California State University. These demand depository accounts and investment accounts shall constitute Gross Revenue Fund Depositories, as that term is defined in the SRB Indenture. All such investments are subject to the investment limitations set forth in the tax covenants in Section 6.07 of the SRB Indenture.
3. Delegate 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, authority to take any and all necessary actions to execute a supplemental indenture and other documents, certificates and instruments as may be necessary or appropriate for the purposes stated in the resolution.

The following resolution is presented for approval:

WHEREAS, the Trustees of the California State University (the "Board"), on March 13, 2002, duly adopted a resolution (the "Resolution") authorizing the execution and delivery of an indenture, dated as of April 1, 2002 (the "Indenture"), between the Board and the State Treasurer of the State of California, as trustee (the "State Treasurer"), which Indenture shall be supplemented by one or more supplemental indentures to be entered into by the Board at such time or times as the Chancellor may determine, authorizing the issuance of one or more series of the Board's Systemwide Revenue Bonds (the "Bonds") pursuant to The

State University Revenue Bond Act of 1947 (codified at California Education Code Sections 90010 to 90081) (the “Bond Act of 1947”); and

WHEREAS, pursuant to the Bond Act of 1947 the Legislature has authorized the Board to control and manage its revenue bond program, including without limitation providing for the timing and use of deposits of revenues from financed projects into the various funds and accounts established under the Indenture, the manner in which moneys on deposit in such funds and accounts shall be held and invested and the duties and powers of the State Treasurer, as trustee under the Indenture; and

WHEREAS, the Board has previously issued Bonds under the Indenture which are currently outstanding and the Board is subject to the terms and conditions of the Indenture providing for the security of the moneys on deposit in the funds and accounts under the Indenture and their use to secure the Bonds and to pay debt service on the Bonds in accordance with the requirements of the Bond Act of 1947 and the Indenture; and

WHEREAS, the Board has established a Revenue Management Program to more efficiently process, control, invest and use certain moneys of the Board for the benefit of the California State University, including moneys on deposit in the Gross Revenue Fund under the Indenture; and

WHEREAS, the Board desires to supplement the Indenture in accordance with its terms and the Bond Act of 1947 in order to further implement the Revenue Management Program; now, therefore, be it

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

1. Authorization of Supplemental Indenture. The Board hereby authorizes the preparation, execution and delivery of a supplemental indenture to provide for the effective and efficient implementation of the Revenue Management Program in accordance with the terms of the Indenture and the Bond Act of 1947. Such supplemental indenture shall provide that surplus funds held pursuant to Section 5.02 of the Indenture shall be expressly authorized to be used for lawful purposes of the Board, including the following: (i) pre-construction planning funds for new campus projects whose revenues will be pledged under the Indenture; (ii) major and regular maintenance and repair expense reserves for projects whose revenues are pledged under the Indenture; (iii) the purchase of new facilities whose revenues will be pledged under the

- Indenture; (iv) the purchase of equipment to be utilized in support of projects whose revenues will be pledged under the Indenture; (v) any incidental costs related to operations and administration of Systemwide Revenue Bond programs; and (vi) redemption of Bonds in accordance with their terms prior to their stated maturity dates. Such supplemental indenture shall also provide that moneys on deposit in the Gross Revenue Fund or any other fund or account established and held by the Board under the Indenture shall be invested in any lawful investment for funds of the Board as the authorized representatives of the Board may from time to time direct, and which shall include demand depository accounts with Wells Fargo Bank, or any other banking institution, selected by the Chancellor and other investment accounts with other investment managers under contract with the California State University; and that these demand depository accounts and investment accounts shall, upon the filing of a Certificate of the Board with the State Treasurer in accordance with the Indenture, constitute Gross Revenue Fund Depositories, as that term is defined in the Indenture; and that all such investments shall be subject to the investment limitations set forth in the tax covenants in Section 6.07 of the Indenture.
2. Authorization to Execute and Deliver Supplemental Indenture and Related Documents and Take Certain Other Actions. The State Treasurer, the Chair and the Secretary of the Board and the Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor, Financial Services, the Senior Director, Financing and Treasury and their designees are each hereby authorized and directed, jointly and severally; (i) to execute and deliver the supplemental indenture authorized by this resolution; (ii) to execute and deliver any and all documents as they may deem necessary or advisable in order to carry out the terms of the Indenture, as supplemented by such supplemental indenture, including without limitation, written requests, certificates and other directions to the State Treasurer and to the State Controller, as may be necessary or appropriate under the Indenture or the Bond Act of 1947 or other applicable California law, as well as other documents, certificates and instruments in connection therewith; and (iii) to take such other actions as they may deem necessary or advisable in order to carry out the purposes of this resolution.
 3. Effective Date. This resolution shall be effective upon its adoption. The supplemental indenture authorized herein shall be effective upon its execution and delivery and shall be valid and binding upon the parties thereto.