

REVISED

AGENDA

COMMITTEE ON FINANCE

Meeting: 1:15 p.m., Tuesday, November 18, 2008
Glenn S. Dumke Auditorium

William Hauck, Chair
Raymond W. Holdsworth, Vice Chair
Roberta Achtenberg
Herbert L. Carter
Kenneth Fong
Margaret Fortune
Curtis Grima
A. Robert Linscheid
Glen O. Toney

Consent Item

Approval of Minutes of Meeting of September 16, 2008

Discussion Items

1. Report on the 2008-2009 Support Budget, *Information*
2. Approval of the 2009-2010 Support Budget Request, *Action*
3. 2009-2010 Lottery Revenue Budget, *Action*
4. 2008-2009 Student Fee Report, *Information*
5. ~~Meeting Quality Standards in State-Supported Professional Business Graduate Programs with Revenue Support Derived from a Per-Unit Fee, *Action*~~
6. Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for Various 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**

September 16, 2008

Members Present

William Hauck, Chair
Raymond W. Holdsworth, Vice Chair
Jeffrey L. Bleich, Chair of the Board
Kenneth Fong
Margaret Fortune
A. Robert Linscheid
Charles B. Reed, Chancellor
Glen O. Toney

Approval of Minutes

The minutes of July 15, 2008 were approved.

Report on the 2008-2009 Support Budget

Trustee Hauck asked Mr. Robert Turnage, assistant vice chancellor, budget, to present the item.

Mr. Turnage pointed out at the time the written agenda was prepared, the legislature was still at an impasse in overcoming differences between the parties and the Governor as to how to resolve a budget gap estimated at between \$15 billion and \$17 billion.

Mr. Turnage then announced the evening before, the legislature had finally adopted a state budget and that signature by the Governor was the next step. He informed the committee the budget that was passed keeps CSU at the same support funding level as the May Revise.

Mr. Turnage noted the Governor still had major issues that had not been satisfactorily addressed; particularly in regard to his requirements for the 'rainy day fund', a key budget reform he was demanding. As a result, the Governor has indicated he would not sign the budget until his rainy day fund demands had been met. Consequently, there is speculation that if the Governor vetoes the budget, the legislature would in turn override the Governor's veto. Mr. Turnage indicated that was where the budget stood at the moment.

A discussion took place during which Mr. Turnage addressed questions from the board and clarified various points regarding details of the budget status up to this point.

Chancellor Charles B. Reed thanked everyone in the CSU family who have worked and continue to work, so hard during the long and difficult budget process.

Mr. Turnage said looking ahead, it is clear we will be facing some very serious financial challenges both as a state and as a university system.

Report on the 2009-2010 Support Budget

Trustee Hauck explained despite the uncertainty over the 2008-2009 budget, plans are already underway for the next budget in 2009-2010. He noted there was a revision to the written agenda item and that a copy of the revised item had been distributed.

Mr. Turnage indicated the item was presented for information at this time, and to seek the board's guidance on recommendations for the 2009-2010 budget.

Mr. Turnage presented an overview of the state's fiscal condition and budget challenges for the 2009-2010 fiscal year. He also outlined revenue and expenditure assumptions under the Higher Education Compact along with CSU's budget priorities requiring a state General Fund investment above the compact. It is already clear that the state faces serious fiscal problems that will endure past the 2008-2009 fiscal year. Mr. Turnage cautioned the severity of these problems could be compounded by some of the options discussed in the 2008-2009 budget deliberations.

Additional discussion took place during which Mr. Turnage explained the different layers of the budget proposal and addressed various questions and comments from the committee. Some other topics discussed included the new initiative on Algebra Readiness, and issues with the high level of fixed costs relevant to the number of students related to off-campus centers.

The general consensus of the discussion concluded that this is an ambitious proposal however, it is best to make known what the needs of the system really are rather than attempting to request what we think will be acceptable.

Lt. Governor John Garamendi expressed his concern that the proposed budget does not address the needs of the state of California for an educated workforce.

Mr. Turnage said the proposal will come back to the trustees for approval at the November, 2008 board meeting.

2009-2010 Lottery Revenue Budget

Mr. Turnage informed the committee the lottery revenue projection for 2009-2010 is \$46 million with \$41 million available for allocation after setting aside CSU's annual \$5 million systemwide reserve. Mr. Turnage indicated there was no change in distribution policy from the previous year and the university does not anticipate any additional carry-forward funds in 2009-2010 above the planned \$5 million budget reserve.

Annual Investment Report

Ms. Colleen Nickles, assistant vice chancellor, financial services, presented the item noting it was the annual investment report for fiscal year 2007-2008 for funds managed under the California State University (CSU) Investment Policy.

Ms. Nickles noted this year, the university's investments were managed jointly by two firms. She then introduced representatives from the two portfolio management firms, Mr. Russ Gould, with Wachovia Portfolio Services, and Messrs. Jim Palmer and Mark Sullivan from FAF Advisors.

Ms. Nickles explained the new investment structure allows the CSU to centrally manage its cash through daily sweeping of available cash balances and pooling into centralized investment accounts. Previous to this, CSU was dependent on the state of California depository and disbursement bank accounts with the state managing and controlling those investable balances. Since implementation of the new structure, CSU has established its own campus-based and Chancellor's Office controlled bank accounts, and manages its own liquidity and investments of available cash.

She continued noting that as seen in the written agenda item, CSU ended fiscal year 2007-2008 with approximately \$1.7 billion of investments in the Systemwide Investment Fund (SWIFT). The objective of SWIFT is to maximize current income while preserving capital and liquidity. Consistent with CSU investment policy, the portfolio has been restructured to high quality fixed income securities. She added that state law prohibits CSU from investment of these funds in equities.

Ms. Nickles reported the return for the 2007-2008 fiscal year was 4.54 percent. This was less than the benchmark for the portfolio which is the Merrill Lynch 3 to 3 year Treasury Index. However, the SWIFT portfolio did outperform the Local Agency Investment Fund (LAIF), which had a 12 month return of 4.325 percent.

The representatives from the two management companies addressed the committee and indicated that given the tumultuous market conditions in the past year, they were pleased to have been able to jointly maintain safety and liquidity for the system's investments.

Mr. Richard P. West, executive vice chancellor and chief financial officer, pointed out that given the relatively short time the new investment structure has been in place, it was decided that going into the market crunch, a conscious decision was made to preserve capital over yield in order to maintain operating funds to pay the bills. He added in retrospect, that has turned out to be a good thing.

Chancellor Charles B. Reed thanked the representatives from the two firms and said he was pleased about how well they have worked together, and for the university.

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

Ms. Nickles indicated the item requested the Board of Trustees' approval to authorize issuance of Systemwide Revenue Bonds and interim financing under the CSU's commercial paper program in an aggregate amount not-to-exceed \$283,685,000 to provide funds for three campus projects and one auxiliary project. She noted the projects consist of:

- A student housing and food service facility at the CSU, Fullerton campus;
- Student housing project at the Humboldt campus;
- A recreational wellness center at the Sacramento campus and;
- An auxiliary finance technology park pilot building at Cal-Poly San Luis Obispo

Ms. Nickles noted she does not anticipate another bond sale until 2009; therefore, these projects will receive their initial funding from our commercial paper program.

Ms. Nickles then reviewed the individual project details and financial terms as laid out in the written item. The Humboldt campus is working with city officials to resolve two easements impacting the project site. As a result, financing of the project will be contingent upon the resolution of this issue and execution of a site certificate. The Sacramento campus project's debt service coverage is slightly lower than the CSU benchmark, however, it was noted that included in the campus calculation is the debt obligation of the Broad Athletic Facility which is scheduled to be re-paid in June 1012. Without this obligation, the campus would anticipate to be above the CSU's 1.35 times debt service campus benchmark.

The respective presidents of the four campuses addressed the committee providing further details and information on their projects. The campus presidents and Chancellor's Office staff then answered questions on some of the projects.

The committee recommended approval of the proposed resolution (RFIN 09-08-09).

COMMITTEE ON FINANCE

Report on the 2008-2009 Support Budget

Presentation By

Richard P. West
Executive Vice Chancellor and
Chief Financial Officer

Robert Turnage
Assistant Vice Chancellor
Budget

Summary

At the time this report was prepared projections of the state's revenue shortfalls for the current fiscal year were as high as \$10 billion. It was anticipated that the Department of Finance would soon release a revised estimate of the shortfall and that the Governor would call a special session of the legislature for November 5 to address the emerging deficit.

Recent Developments Affecting the 2008-09 Support Budget

In January, the Governor proposed a budget for support of the California State University in 2008-09 that was \$312.9 million below what the Department of Finance calculated as needed for a basic "workload" budget. In his "May Revision," the Governor recommended reversing \$97.6 million of the proposed reduction. The 2008-09 budget act passed by the legislature and signed by the Governor on September 23—after a record 85-day impasse into the fiscal year—approved the budget proposed by the Governor for the CSU, as revised in May. This resulted in essentially the same level of funding provided to the CSU in the 2007-08 fiscal year, yet approximately \$215 million below workload needs.

At the time the Governor signed the budget act it was already apparent that California's economy and state revenues were falling short of budget estimates. Cost-saving assumptions that were part of the enacted budget included an assumption that the Department of Finance would identify \$390 million of additional savings. In October the department concluded that about \$200 million would be saved by "natural" attrition in state expenditures, primarily in "local assistance" appropriations, which represent nearly three-fourths of a state General Fund budget of \$103 billion. Approximately one-fourth of state General Fund spending falls in the category of "state operations." This covers expenditures by entities of state government, including the CSU and the University of California (UC). After accounting for appropriations for the legislative and

judicial branches of government and appropriations that cannot be reduced due to constitutional or federal mandate, the “pool” of state operations expenditures available for reduction is less than \$16 billion. Within this category of expenditures the Governor and the Department of Finance assumed expected savings totaling \$190 million and allocated the expected savings among state entities on a proportional basis.

The administration allocated to the CSU an expected amount to be saved of \$31,314,000, confirmed in an October 20 letter from the Director of the Department of Finance. In response to the administration, the Chancellor made it clear that in order to meet the CSU’s mission-critical functions this would have to be a one-time reduction, and not affect the University’s general fund budget going forward. We anticipate that CSU will be able to manage this reduction without disrupting campus operations or impacting instruction, student services or public safety. However, all programs funded by state government, including the CSU, are vulnerable to major additional cuts from the legislature because the state’s revenues are in free-fall.

Less than a month after the budget was signed, projections of revenue shortfalls for the current fiscal year were as high as \$10 billion. At the time this agenda item was prepared, it was anticipated that the Department of Finance would release a revised estimate of the shortfall and that the Governor would call a special session of the legislature for November 5 to address the emerging deficit. Under the provisions of Proposition 58, passed by the voters in 2004, the Governor has the authority to declare a fiscal emergency and call the legislature into special session if he determines that General Fund revenues will decline substantially below the estimate on which the enacted budget was based. In such an event, the proposition states that the Governor shall submit to the legislature proposed legislation to address the fiscal emergency along with his proclamation calling the special session.

The extent to which the legislature and Governor successfully address the current-year gap in a special session, the course of the state’s economy over the next twenty months, and the possibility of a major federal effort to aid state governments will all play significant roles in the state’s ability to minimize impacts in the 2008-09 fiscal year, but also its ability to address budget priorities for the 2009-10 fiscal year.

Conclusion

At the time this agenda item was prepared projections of revenue shortfalls for the current fiscal year were as high as \$10 billion. It was anticipated that the Department of Finance would soon release a revised estimate of the shortfall and that the Governor would call a special session of the legislature for November 5 to address the emerging deficit. The Board will be provided at its meeting with updated information on the 2008-09 budget and the state’s fiscal condition.

COMMITTEE ON FINANCE

Approval of the 2009-2010 Support Budget Request

Presentation By

Richard P. West
Executive Vice Chancellor and
Chief Financial Officer

Robert Turnage
Assistant Vice Chancellor
Budget

Summary

The Board of Trustees met in September to review final legislative actions on the 2008-09 CSU budget; understand the overall fiscal condition of the state; and discuss recommendations for the 2009-10 CSU budget. The Board of Trustees will be provided at this meeting with an update of the state's fiscal condition and budget challenges for the 2009-10 fiscal year. The board also will be presented with the 2009-10 revenue and expenditure assumptions under the Compact for Higher Education along with University budget priorities that would require a state General Fund investment above the Compact funding.

State Budget Overview

At the September Board meeting, the Trustees were provided the details of the state's fiscal condition and final legislative actions regarding the 2008-09 CSU budget. The 2008-09 Budget Act—enacted a record 85 days into the 2008-09 fiscal year—contained only a \$1.7 billion budget reserve, despite growing expectations that California's revenues were significantly below state projections. Less than a month after the budget was signed, projections of revenue shortfalls for the current fiscal year were as high as \$10 billion. At the time this agenda item was prepared, it was anticipated that the Governor would call a special session of the legislature for November 5 to address this emerging deficit.

The extent to which the legislature and Governor successfully address the current-year gap in a special session, the course of the state's economy over the next twenty months, and the possibility of a major federal effort to aid state governments will all play significant roles in the state's ability to address its budget priorities for the 2009-10 fiscal year.

Given the many factors in play for the State's 2008-09 fiscal condition, any forecast for the state's 2009-10 fiscal condition carries a very wide range of uncertainty at this time. However, even the most optimistic scenario points to continuing fiscal difficulty.

2009-10 CSU Support Budget

Despite the state's fiscal condition, the CSU will have funding demands for student access, compensation, mandatory costs, financial aid, and long-term need (academic technology, libraries, and deferred maintenance) that need to be brought to the attention of the state. For the three fiscal years 2005-06 through 2007-08, the Higher Education Compact has provided the revenue to support these critical funding issues. We believe that the Compact represents the best starting point for formulating recommendations for the Governor's 2009-10 budget. We estimate that the CSU will need a minimum of \$341.2 million from the state's General Fund to fully fund the current provisions of the Compact. This amount would be in addition to the \$2.97 billion General Fund support that was appropriated by the legislature in the 2008-09 Budget Act. Proposed expenditures include:

- | | |
|---|-----------------|
| • Mandatory Costs
<i>(health and dental benefits, new space, and energy)</i> | \$33.6 million |
| • Student Enrollment Growth (2.5 % or 8,572 FTES) | \$83.5 million |
| • Financial Aid (assumes no increase in student fees) | \$6.8 million |
| • Long Term Need | \$44.0 million |
| • Compensation | \$173.3 million |

Total **\$341.2 million**

As discussed at the September board meeting, staff further proposes \$116.7 million as a "core compact recovery" of a key portion of Compact revenues that were not received from the state for the 2008-09 fiscal year. The University needs these funds in order to avoid losing ground in its efforts to close salary lags and reach competitive salary levels for faculty and staff. Also, in addition to funding within the Compact, the University has recognized funding priorities "above the Compact" and has achieved some past success in getting these priorities funded by the Governor and the legislature. As part of the 2009-10 state budget the CSU is requesting funding for the following "above Compact" budget priorities:

- Clinical Nursing \$5.0 million
- Algebra Readiness \$3.0 million
- Special Education Teacher Preparation \$1.2 million
- Compensation (1 percent) \$31.5 million
- Student Services Initiative \$24.6 million
- Increasing the Ratio of Tenured Faculty \$42.0 million
- Applied Research and Services \$16.0 million
- Off-Campus Centers' Fixed Costs \$5.2 million
- Deferred Maintenance (beyond compact) \$25.0 million

In order to make progress on all these budget priorities, including the Compact, CSU would need a total augmentation of \$611.4 million from the state General Fund.

The following resolution is recommended for adoption.

RESOLVED, By the Board of Trustees of the California State University that the 2009-10 Support Budget is approved as submitted by the chancellor; and be it further

RESOLVED, That the chancellor is authorized to adjust and amend this budget to reflect changes in the assumptions upon which this budget is based, and that such changes made by the chancellor be communicated promptly to the trustees; and be it further

RESOLVED, That the chancellor is authorized to comply with requests of the Department of Finance and the legislature regarding establishment of priorities within this budget; and be it further

RESOLVED, That copies of this resolution be transmitted to the California Postsecondary Education Commission, to the governor, to the director of finance and to the legislature.

COMMITTEE ON FINANCE

2009-2010 Lottery Revenue Budget

Presentation By

Richard P. West
Executive Vice Chancellor and
Chief Financial Officer

Robert Turnage
Assistant Vice Chancellor
Budget

Summary

This is an action item regarding the lottery revenue budget proposal for fiscal year 2009-10. At its last meeting the board reviewed the lottery revenue budget as an information item. During the intervening time new information indicates that state lottery revenues have fallen in response to the state's sharp economic decline. Accordingly, we have revised our lottery revenue projection for 2009-10 downward from \$46 million to \$44 million. We also have revised the proposed amount available for allocation from \$41 million to \$39 million, after setting aside CSU's annual \$5 million systemwide reserve. Due to the uncertainties in the lottery revenues streams in recent years, this revised 2009-10 lottery revenue projection for the CSU is at the same level as the relatively conservative estimate for fiscal year 2008-09. Beginning reserves are maintained at \$5 million and campuses' interest earnings from lottery allocations are incorporated in campus total revenue earnings. CSU does not anticipate any additional carry forward funds in 2009-10 above the planned \$5 million budget reserve. The \$5 million reserve is used to assist with cash-flow variations due to fluctuations in quarterly lottery receipts and other economic uncertainties.

2009-10 Lottery Budget Proposal

The \$39 million lottery budget plan proposal will continue to be designated to campus based programs and the three system-designated programs that have traditionally received annual lottery funding support: Chancellor's Doctoral Incentive Program, California Pre-Doctoral program, and CSU Summer Arts Program. Proposed amounts for each program are the same as the adopted budget for 2008-09. The Chancellor's Doctoral Incentive Program will receive \$2 million for financial assistance to graduate students to complete doctoral study in selected disciplines of particular interest and relevance to the CSU. The California Pre-Doctoral Program will receive \$714,000 to support CSU students who aspire to earn doctoral degrees and who have

experienced economic and educational disadvantages. The CSU Summer Arts program will receive \$1.2 million for academic credit courses in the visual, performing, and literary arts.

The remaining \$35.1 million in 2009-10 lottery funds will continue to be used for system program administration and campus based programs. The campus based programs represent a significant source of funds that allow presidents maximum flexibility in meeting unique campus needs. Traditionally, projects receiving campus based funds have included the purchase of new instructional equipment, equipment replacement, curriculum development, and scholarships.

The following table summarizes how lottery funds allocated for the 2007-08 fiscal year were expended.

2007-08 Lottery Expenditure Report		
Program Support Area	Expense	Percent of Total
Academic	\$34,161,376	59%
Library Services	\$10,078,456	17%
Student Services	\$5,487,027	9%
Administration	\$3,188,303	5%
University Maintenance	\$1,756,673	3%
Financial Aid	\$1,727,470	3%
Community Relations	\$1,733,475	3%
	\$58,132,782	100%

Ninety-five percent of lottery allocations are spent on supplemental programs and services for students and faculty.

The CSU lottery revenue budget proposed for 2009-10 is as follows:

2009-10 Proposed Lottery Revenue Budget

	2008-09 Adopted Budget	2009-10 Proposed Budget
Sources of Funds		
Beginning Reserve	\$ 5,000,000	\$ 5,000,000
Receipts	39,000,000	39,000,000
Total Revenues	\$ 44,000,000	\$ 44,000,000
<i>Less Systemwide Reserve</i>	<i>(5,000,000)</i>	<i>(5,000,000)</i>
Total Available for Allocation	\$ 39,000,000	\$ 39,000,000
Uses of Funds		
<i>System Programs</i>		
Chancellor's Doctoral Incentive Program	\$ 2,000,000	\$ 2,000,000
California Pre-Doctoral Program	714,000	714,000
CSU Summer Arts Program	1,200,000	1,200,000
Program Administration	491,000	491,000
	\$ 4,405,000	\$ 4,405,000
<i>Campus Based Programs</i>		
Campus/CO Programs	\$ 34,595,000	\$ 34,595,000
Total Uses of Funds	\$ 39,000,000	\$ 39,000,000

Proposed Lottery Modernization Act

The 2008-09 budget package adopted by the legislature and the governor included proposed changes to the state lottery to be submitted to the voters as the "Lottery Modernization Act." It is anticipated that the governor will call a special election for sometime in the spring that will include the submittal of these changes to the voters. If approved by the voters, the state would "securitize" lottery revenues—by selling to investors the right to future lottery revenue streams—in order to help the State's General Fund condition in the near-term, beginning with

the 2009-10 fiscal year. The Lottery Modernization Act includes the following “hold harmless” provision for the CSU and the other education segments: an annual appropriation from the General Fund—beginning in 2009-10—equal to the lottery revenues received by each segment in the 2008-09 fiscal year, and grown by annual changes in enrollment and annual changes in California per capita personal income. This provision could have a marginal effect on the amount we have projected for CSU lottery revenues for the 2009-10 lottery revenues budget that is the subject of this action item. The current-law restrictions on use of lottery revenues for the CSU and other education segments would remain in effect with the replacement General Fund revenues under the Lottery Modernization Act; the funds are to be used for the education of students and no funds are to be spent for acquisition of real property, construction of facilities, financing of research, or any other noninstructional purpose.

The following resolution is recommended for adoption:

RESOLVED, By the Board of Trustees of the California State University, that the 2009-10 Lottery Revenue budget totaling \$44 million be approved for implementation by the chancellor, with the authorization to make transfers between components of the Lottery Revenue budget and to phase expenditures in accordance with receipt of lottery funds; and be it further

RESOLVED, that the chancellor is hereby granted authority to adjust the 2009-10 Lottery Revenue budget approved by the Board of Trustees to the extent that receipts are greater or lesser than budgeted revenue to respond to opportunities or exigencies; and be it further

RESOLVED, That a report of the 2009-10 Lottery Revenue budget receipts and expenditures be made to the Board of Trustees.

COMMITTEE ON FINANCE

2008-2009 Student Fee Report

Presentation By

Richard P. West
Executive Vice Chancellor and
Chief Financial Officer

Robert Turnage
Assistant Vice Chancellor
Budget

Summary

California State University student fee policy requires that an annual campus student fee report be presented to the Board of Trustees to allow the board to consider the level and range of fees charged to CSU students. Summary tables in this report include the 2008-09 academic year, resident, undergraduate student fees required to enroll in, or attend the university, by campus, and a comparison of 2007-08 to 2008-09 summary fee levels by campus.

Also, included are tables with 2008-09 fee levels at the CSU's 15 public comparison institutions. The California Postsecondary Education Commission has historically referenced 15 public institutions for faculty compensation and student fee comparisons. Comparison of 2008-09 academic year resident, undergraduate, graduate, and nonresident student fee levels are presented.

2008-09 Student Fee Report

CSU 2008-09 academic year resident, undergraduate student fees include the systemwide State University Fee (SUF) and mandatory campus-based fees. Systemwide and campus-based fees average \$3,849. This is comprised of \$3,048 for undergraduate SUF (6.1 units or more) and \$801 for average campus based fees that must be paid to enroll in, or attend the university. The 2008-09 systemwide State University Fee increased \$276 (10%) from the 2007-08 fee rate. The average campus-based fees of \$801 are mandatory to enroll in, or attend the university and represent a \$52 (7%) increase from the prior year.

Other campus fees may be charged to students but are not mandatory for all students. These include Category III miscellaneous course fees, and Category IV materials, services and facilities fees and fines. The current fee policy also includes Category V which applies to non-state

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supported activities such as parking, housing and extended or continuing education. The student fee policy adopted by the board in May 2008 (RFIN 05-08-04) gives increased authority to presidents to establish Category III, IV and V fees under specific guidelines. To balance this increased authority, campuses are asked to report more detail to the chancellor's office annually including all campus-based fee rates and resulting revenues. Mandatory campus-based fees continue to require that campus presidents forward a request to the chancellor following appropriate consultation at the campus. After an additional review process, campus mandatory fees can be established by chancellor's executive order. Presidents also retain their authority to adjust campus-based fees following appropriate consultation and/or a referendum process.

Credential program and graduate/other post-baccalaureate systemwide State University Fee (SUF) rates are greater than the undergraduate SUF. In 2008-09 credential program participant SUF rates increased 10 percent to \$2,052 for 6 units or less and \$3,540 for 6.1 units or more per academic year. Graduate and other post-baccalaureate SUF rates increased to \$2,178 for 6 units or less and \$3,756 for 6.1 units or more per academic year. Nonresident students pay tuition in addition to applicable SUF. The nonresident tuition rate is \$339 per semester unit and \$226 per quarter system unit for a maximum academic year total of \$10,170. There has been no increase in nonresident tuition since 2004-05. Nonresident tuition was increased 15 percent in 2002-03 and 20 percent in 2004-05, and prior to that had not been increased since 1991-92.

Following are 2008-09 academic year resident, undergraduate student fees by campus, and 2007-08 versus 2008-09 summary fee levels by CSU campus:

	Undergraduate State University Fee		Campus Mandatory Fees must be paid to enroll in or attend the university						Total=SUF plus Campus Fees
	Up to 6 units	Above 6 units	Health Facilities	Health Services	Instructionally Related Activities	Materials, Services and Facilities	Student Body Assoc.	Student Body Center	
Bakersfield	1,770	3,048	6	222	66	12	315	408	\$4,077
Channel Islands	1,770	3,048	6	120	200	70	124	190	\$3,758
Chico	1,770	3,048	6	240	248	4	116	346	\$4,008
Dominguez Hills	1,770	3,048	6	150	10	0	135	314	\$3,663
East Bay	1,770	3,048	6	201	105	3	129	165	\$3,657
Fresno	1,770	3,048	6	182	124	46	67	214	\$3,687
Fullerton	1,770	3,048	6	90	52	38	148	268	\$3,650
Humboldt	1,770	3,048	6	280	518	10	101	185	\$4,148
Long Beach	1,770	3,048	6	90	50	10	88	100	\$3,392
Los Angeles	1,770	3,048	6	165	110	0	54	275	\$3,658
Maritime Academy	1,770	3,048	14	680	130	30	210	0	\$4,112
Monterey Bay	1,770	3,048	0	0	58	291	96	42	\$3,535
Northridge	1,770	3,048	6	106	30	50	152	310	\$3,702
Pomona	1,770	3,048	6	135	40	0	95	240	\$3,564
Sacramento	1,770	3,048	6	142	21	0	259	378	\$3,854
San Bernardino	1,770	3,048	39	167	140	15	81	289	\$3,779
San Diego	1,770	3,048	50	170	190	30	70	196	\$3,754
San Francisco	1,770	3,048	6	222	234	4	84	164	\$3,762
San Jose	1,770	3,048	46	151	198	30	147	372	\$3,992
San Luis Obispo	1,770	3,048	8	166	252	947	258	364	\$5,043
San Marcos	1,770	3,048	50	130	80	112	100	130	\$3,650
Sonoma	1,770	3,048	26	232	394	26	174	372	\$4,272
Stanislaus	1,770	3,048	8	204	139	187	105	128	\$3,819
CSU Average	\$1,770	\$3,048	\$14	\$185	\$147	\$83	\$135	\$237	\$3,849
		Average Campus Mandatory Fees \$801							
Credential SUF*	\$2,052	\$3,540							
Graduate SUF*	\$2,178	\$3,756							
Education Doctorate SUF*		\$7,926							
Non Resident Tuition*		\$226/quarter unit or \$339/semester unit for a maximum academic year charge of \$10,170. These rates are paid in addition to applicable SUF rates.							
*The above fees are paid in addition to campus mandatory fees.									

CSU 2007-08 versus 2008-09 Academic Year			
Resident, Undergraduate Student Systemwide and Campus Fees			
Campus	2007-08	2008-09	Increase
Bakersfield	3,714	4,077	\$363
Channel Islands	3,432	3,758	\$326
Chico	3,690	4,008	\$318
Dominguez Hills	3,377	3,663	\$286
East Bay	3,345	3,657	\$312
Fresno	3,299	3,687	\$388
Fullerton	3,366	3,650	\$284
Humboldt	3,843	4,148	\$305
Long Beach	3,116	3,392	\$276
Los Angeles	3,332	3,658	\$326
Maritime Academy	3,728	4,112	\$384
Monterey Bay	3,256	3,535	\$279
Northridge	3,350	3,702	\$352
Pomona	3,278	3,564	\$286
Sacramento	3,558	3,854	\$296
San Bernardino	3,455	3,779	\$324
San Diego	3,428	3,754	\$326
San Francisco	3,456	3,762	\$306
San José	3,632	3,992	\$360
San Luis Obispo	4,689	5,043	\$354
San Marcos	3,374	3,650	\$276
Sonoma	3,946	4,272	\$326
Stanislaus	3,330	3,819	\$489
CSU Average	3,521	3,849	\$328
Systemwide SUF:	\$2,772	\$3,048	\$276
Avg. Campus Based Fees:	\$749	\$801	\$52
Total	\$3,521	\$3,849	\$328

Increases in campus mandatory fees in 2008-09, after the \$276 increase in SUF, resulted primarily from fees for construction of new student recreation centers or student union buildings or the addition or expansion of athletics programs. Some campuses have authorized annual incremental fee increases tied to the California Price Index.

The 2008-09 CSU comparison institution academic year resident, *undergraduate*, student fees are provided below. CSU continues to maintain the lowest undergraduate fees among the 15 comparison public institutions. The 2008-09 comparison institution student fee average is \$7,516 and the CSU student fee average is \$3,849. The following table lists the 2008-09 fee rates and a comparison to 2007-08 fee rates:

2008/09 CSU Comparison Institution				
Academic year Resident Undergraduate, Student Mandatory Fee Levels				
	2007/08	2008/09	2008/09 Increase	
Rutgers University (Newark, NJ)	\$10,357	\$10,800	\$443	4%
Illinois State University (Normal, IL)	\$9,020	\$9,814	\$794	9%
University of Connecticut (Storrs, CT)	\$8,852	\$9,338	\$486	5%
University of Maryland, Baltimore County	\$8,708	\$8,780	\$72	1%
Wayne State University (Detroit, MI)	\$8,644	\$8,751	\$107	1%
Cleveland State University	\$7,920	\$7,920	\$0	0%
University of Wisconsin at Milwaukee	\$7,724	\$7,906	\$182	2%
University of Texas at Arlington	\$7,194	\$7,780	\$586	8%
Comparison Average¹	\$7,122	\$7,516	\$394	6%
George Mason University (Fairfax, VA)	\$6,840	\$7,512	\$672	10%
University of Colorado at Denver	\$5,863	\$6,349	\$486	8%
State University of New York at Albany	\$6,018	\$6,087	\$69	1%
Georgia State University at Atlanta	\$5,422	\$6,056	\$634	12%
Arizona State University at Tempe	\$5,122	\$5,664	\$542	11%
North Carolina State University	\$5,117	\$5,274	\$157	3%
University of Nevada at Reno	\$4,029	\$4,711	\$683	16.9%
California State University	\$3,521	\$3,849	\$328	9%

¹Comparison Average Does Not Include CSU

The 2008-09 CSU comparison institution *graduate and nonresident* undergraduate students fees are listed with prior year fee levels in the tables that follow. CSU also has the lowest *graduate* fees among comparison institutions. The 2008-09 comparison institutions graduate student fee average is \$9,931 and CSU's graduate student fee average is \$4,341.

2008/09 CSU Comparison Institution				
Academic year Resident Graduate, Student Mandatory Fee Levels				
	2007/08	2008/09	2008/09 Increase	
University of Maryland, Baltimore County	\$14,584	\$15,840	\$1,256	9%
Rutgers University (Newark, NJ)	\$13,792	\$14,619	\$827	6%
Wayne State University (Detroit, MI)	\$14,092	\$14,214	\$122	1%
Cleveland State University	\$11,420	\$11,420	\$0	0%
George Mason University (Fairfax, VA)	\$10,110	\$11,100	\$990	10%
University of Connecticut (Storrs, CT)	\$10,052	\$10,594	\$542	5%
University of Wisconsin at Milwaukee	\$10,020	\$10,382	\$362	4%
Comparison Average¹	\$9,486	\$9,931	\$446	5%
University of Colorado at Denver	\$9,193	\$9,455	\$262	3%
University of Texas at Arlington	\$8,874	\$8,710	(\$164)	-2%
State University of New York at Albany	\$8,240	\$8,282	\$42	1%
Illinois State University (Normal, IL)	\$7,850	\$7,932	\$82	1%
Arizona State University at Tempe	\$6,528	\$7,044	\$516	8%
Georgia State University at Atlanta	\$6,224	\$6,922	\$698	11%
University of Nevada at Reno	\$5,694	\$6,766	\$1,073	19%
North Carolina State University	\$5,616	\$5,692	\$76	1%
California State University	\$4,163	\$4,557	\$394	9%

¹Comparison Average Does Not Include CSU

Non-resident undergraduate tuition plus State University Fee at \$14,019 is in the bottom one-fifth when compared to our public comparison institutions.

2008/09 CSU Comparison Institution				
Academic year Non-Resident Undergraduate, Student Mandatory Fee Levels				
	2007/08	2008/09	2008/09 Increase	
University of Connecticut (Storrs, CT)	\$22,796	\$24,050	\$1,254	6%
George Mason University (Fairfax, VA)	\$19,728	\$21,648	\$1,920	10%
Rutgers University (Newark, NJ)	\$19,526	\$21,014	\$1,488	8%
Georgia State University at Atlanta	\$18,910	\$20,624	\$1,714	9%
University of Colorado at Denver	\$17,754	\$19,251	\$1,497	8%
Wayne State University (Detroit, MI)	\$18,215	\$18,888	\$673	4%
Comparison Average¹	\$17,176	\$18,017	\$841	5%
Arizona State University at Tempe	\$17,154	\$17,952	\$798	5%
University of Wisconsin at Milwaukee	\$16,686	\$17,815	\$1,129	7%
North Carolina State University	\$17,315	\$17,572	\$257	1%
University of Maryland, Baltimore County	\$17,440	\$17,512	\$72	0%
Illinois State University (Normal, IL)	\$16,340	\$16,444	\$104	1%
University of Texas at Arlington	\$15,534	\$16,210	\$676	4%
University of Nevada at Reno	\$14,839	\$15,805	\$967	7%
California State University	\$13,691	\$14,019	\$328	2%
Cleveland State University	\$13,127	\$13,127	\$0	0%
State University of New York at Albany	\$12,278	\$12,347	\$69	1%

¹Comparison Average Does Not Include CSU

COMMITTEE ON FINANCE

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

Presentation By

Colleen Nickles
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 \$104,910,000, to provide funds for a campus project and two auxiliary projects. The Board is being asked to approve a set of 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 Bonds.

The projects are as follows:

1. Long Beach Student Recreation and Wellness Center

In March 2007, the Board of Trustees approved the amendment of the non-state capital outlay program and in March 2008, the Board approved the schematics for this project. The project will provide a 109,000 gross square foot recreation facility for students, faculty, staff, and the public. The proposed site is on the east side of the campus next to Parking Structure 2. The site is currently a parking lot with approximately 500 spaces that will be displaced by the construction of the project. However, the replacement of parking spaces has been included in the new Parking Structure 3, which is currently under construction north of this site, along with 76 spaces being included in the project. The new project will include a three-court gymnasium, two multi-activity center gymnasiums, an elevated jogging track, cardiovascular machines and free weights, multipurpose activity spaces, racquetball courts, a rock climbing wall, locker rooms, showers, social lounges, a juice bar, vending machine area, and administrative offices. Located centrally in the facility will be a wellness center which will provide space for a performance and fitness lab, counseling, and consultation. There will be an exterior pool with three lap lanes, space for water volleyball and recreation, a spa, deck space, and a sand volleyball court. The building will be designed to be equivalent to LEED Silver. Building systems are designed to be

both energy and water efficient. In February 2007, the California State University, Long Beach students voted to support the project and operations.

The not-to-exceed par value of the proposed bonds is \$72,035,000 and is based on a total project cost of \$61,612,000. Additional financing costs are to be funded from the bond proceeds. The project delivery method is Construction Manager at Risk. The campus received an acceptable Guaranteed Maximum Price in September 2008. The campus anticipates a construction start of December 2008 with an estimated completion in August 2010.

The following table provides information about this financing transaction.

Not-to-exceed amount	\$72,035,000
Amortization	Approximately level over 30 years
Pro-forma maximum annual debt service	\$ 5,419,720
Projected debt service coverage including the new project: ¹	
Net revenue – All Long Beach pledged revenue programs:	2.08
Net revenue – Projected for the campus student union program:	1.21

1. Projected information – Combines 2007/08 unaudited information for the campus-pledged revenue programs and 2011/12 operations of the project with expected full debt service.

The not-to-exceed amount for the project totaling \$72,035,000, the maximum annual debt service, and the ratios above are based on an all-in interest cost of 6.80% (as of October 23, 2008), reflective of market scale 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 has submitted a financial plan that has 1.21 times projected program net revenue debt service coverage, which exceeds 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 2.08, which exceeds the CSU's 1.35 times debt service campus benchmark.

2. Fullerton Auxiliary Services Corporation – Faculty/Staff Housing Refinance Project

The Board is being asked to approve a loan to the California State University, Fullerton Auxiliary Services Corporation (the "Corporation"), a recognized auxiliary organization in good standing, to refinance two bank loans and finance other costs associated with two faculty / staff housing projects (the "Project").

Though the Fullerton Housing Authority (the "Authority") is the obligor of the two bank loans, the Corporation will be the obligor of the refinancing loan, as the general obligation pledge of

the Corporation's unrestricted revenues enable sufficient cash flows for repayment of the debt. The Authority's leasing and sale revenue from the Project will be transferred to the Corporation, who will in turn use those funds to repay the loan.

Financing for the University Heights project ("Heights") was approved by this Board at its July 2005 meeting. The Heights is an off-campus faculty and staff homeownership program of the Authority consisting of 42-paired units in 21 buildings on a 3-acre site approximately 3 miles west of the campus in Fullerton. The Authority financed Heights with a conventional construction loan from Citibank for \$22,085,000. The current outstanding balance of this loan is \$13,666,685. Currently there are 26 unsold units. The ground lease restriction and resale provision on Heights units remain in force. Units are being sold to California State University Fullerton faculty and staff as well as to educational and non-profit community partners in the Fullerton Workforce Housing Consortium, whose members include Fullerton College, Hope International University, St. Jude's Hospital, and other colleges and school districts.

The Creekside project ("Creekside") was approved by this Board at its September 2007 meeting. Creekside is an off-campus faculty and staff homeownership program of the Authority consisting of 20 refurbished condominiums in La Habra. The Authority financed Creekside with a conventional loan from Citibank for \$5,500,000. The current outstanding balance of this loan is \$3,164,710. Currently there are 10 unsold units. The ground lease restrictions and resale provisions on all Creekside units have been lifted and units are being sold to the general public.

Construction delays at Heights as well as the ongoing downturn in the housing market have resulted in depressed housing sales at Heights and Creekside and cost increases, preventing the Authority from being able to pay off the two Citibank loans which come due on December 15, 2008. Additionally, due to continuing issues in the credit market, conventional financing opportunities are not readily available.

It is proposed that the Systemwide Revenue Bond Program be used to refinance the two bank loans for the Project and provide additional funds to finance certain remaining construction costs at Heights. The Corporation's Board adopted a resolution authorizing the financing on October 14, 2008. A loan agreement between the Corporation and the Trustees for the financing (the "Loan") will provide for a general obligation pledge of the Corporation's unrestricted revenues. It is anticipated that all Creekside units will be sold by December 2008. Proceeds from those Creekside units which sell after December 2008 will be used to pay down the principal balance of the proposed Loan.

Due to the nature of the Project, and the immediate application of sales proceeds to the outstanding Loan, the financing plan calls for the Project to remain in commercial paper. Until the housing market recovers sufficiently so that Heights units can be sold at a reasonable value, unsold Heights units will be leased to California State University Fullerton faculty and staff as

well as to members of the Fullerton Workforce Housing Consortium. For purposes of this presentation, a conservative assumption of a market recovery period of 10 years has been used, after which the units would be sold and the debt paid off. If the housing market recovers sufficiently within the 10 year period, the units will be sold with the originally proposed restrictions (underlying ground lease and limitations on resale provisions), shortening the life of the proposed Loan.

The total cost of the Project is estimated at \$16,831,000, based on the current outstanding balance of both Citibank loans and the other construction costs associated with Heights, and will be funded by commercial paper at a not-to-exceed par amount of \$16,930,000, including an amount for cost of issuance. The financing will be a tax-exempt issue secured by a general obligation pledge of the Corporation's unrestricted revenues, including leasing and housing sale revenues generated from the operation of the Project.

Calculations of debt service coverage ratios are included based on debt amortization over a 30 year period, with no assumed repayment from housing sale proceeds. For this analysis, the debt structure reflects slightly ascending debt service in the first five years, taking into account the projected lease-up period at Heights and the Corporation's projected net revenues, with level debt service thereafter. Maximum annual debt service is projected to be \$1,070,000, based on an all-in interest cost of 4.50%, which is reflective of historical commercial paper rates with a cushion for potential higher rates in the future. Project debt service coverage on this basis is less than 1.00, below the CSU benchmark of 1.25 for auxiliary organizations and requires other Corporation revenues to meet debt service. The coverage for the Corporation is at or slightly above 1.20 from fiscal year 2010-11 through fiscal year 2012-13, attaining a ratio of 1.25 in fiscal year 2013-14, with a rising trend thereafter. However, given the Corporation's general obligation pledge of revenues, cash reserves, and the lack of viable alternative refinancing options, approval is recommended.

3. Long Beach Foundation – CSU Long Beach Residential Learning College Renovation Project

In January 2008, the California State University, Long Beach Foundation (the "Foundation"), a recognized auxiliary organization in good standing, received Board of Trustees approval for the issuance of Systemwide Revenue Bonds to finance the acquisition of real property formerly known as Brooks College, a private technical school consisting of four buildings on 5 acres of land located about 1 mile from the main campus. The Board is now being asked to approve a loan to the Foundation for certain capital costs associated with the renovations to existing Brooks College facilities, currently known as the CSU Long Beach Residential Learning College (the "Project"). On July 9, 2008, the Chancellor's Office Capital Planning Design and Construction, under Trustee-delegated authority, approved the schematic design for the Project.

The Project will address seismic and other building safety issues through various corrective measures, including the renovation and seismic upgrading of the cafeteria and two dormitory buildings (Las Encinitas and Los Robles). The Project will also renovate the cafeteria kitchen and demolish another dormitory building (Las Palmas) so that the vacant land can be used for parking. (The Las Palmas building would have been overly expensive to renovate, and there is a severe shortage of parking.) Upon completion, the Project will provide for student housing space of 102,398 GSF with 550 revenue-producing beds, cafeteria space of 6,405 s.f. with 251 seats, classroom space of 2,744 s.f. with 150 seats, total parking spaces of 333, office space of 717 s.f. and four faculty residences.

The Foundation will enter into operating agreements with certain campus programs and another campus auxiliary organization for the following purposes: (1) campus housing program to manage the student housing operations; (2) Forty-Niner Shops, Inc. to manage the cafeteria operations; (3) academic units for the rental and use of classroom facilities; (4) campus parking program for parking operations and shuttle services; and (5) campus police for security services for the Project.

The total Project cost is \$14,634,000 and will be funded at a not-to-exceed par amount of \$15,945,000. The delivery method for this Project is design-bid-build. The Project construction is scheduled to begin in January 2009 and to be completed in August 2009, in time for the start of the 2009 Fall semester. Good bids were received on October 20, 2008.

The bonds are structured as a tax-exempt issue secured by a general obligation pledge of the Foundation's unrestricted revenues, including rental receipts from the Project. The bonds will be amortized over 25 years, with a level debt service schedule and a maximum annual debt service of \$1,274,360. Based on the financial plan, the Foundation demonstrates strong debt service coverage of 1.47, while the Project itself provides coverage of 1.21 in fiscal 2010-11, the first full year of Project operation, but increasing gradually thereafter. The debt service coverage ratio exceeds the CSU benchmark of 1.25 for auxiliary organizations, but does not meet the 1.25 benchmark for auxiliary projects; however, the general obligation pledge of the Foundation and the financial strength of the Foundation will secure repayment of the Project bonds. The par amount of the bonds is based on an all-in interest cost of 6.71% (as of October 23, 2008), reflective of market scale plus 100 basis points as a cushion to account for any market fluctuations that could occur before the permanent financing bonds are sold.

Trustee Resolutions and Recommended Action

Orrick, Herrington & Sutcliffe LLP, as bond counsel, is preparing 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 \$104,910,000 and certain actions relating thereto.
2. Provide a delegation to the Chancellor; the Executive Vice Chancellor and Chief Financial Officer; the Vice Chancellor, Administration and Finance; 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.

Approval of the financing resolutions for the projects as described in agenda item 6 of the Committee on Finance at the November 18-19, 2008 meeting of the CSU Board of Trustees is recommended for:

Long Beach Student Recreation and Wellness Center

Fullerton Auxiliary Services Corporation – Faculty / Staff Housing Refinance Project

Long Beach Foundation — CSU Long Beach Residential Learning College Renovation Project