

AGENDA

COMMITTEE ON FINANCE

Meeting: 1:45 p.m., Tuesday, September 24, 2013
Glenn S. Dumke Auditorium

William Hauck, Chair
Roberta Achtenberg, Vice Chair
Rebecca D. Eisen
Douglas Faigin
Margaret Fortune
Steven M. Glazer
Lou Monville

Consent Items

Approval of Minutes of Meeting of July 23, 2013

Discussion Items

1. Planning for the 2014-2015 Support Budget Request, *Information*
2. 2014-2015 Lottery Revenue Budget, *Information*
3. Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for One Project, *Action*
4. Partnership for Student Housing on Private Property Adjacent to California State University San Bernardino, *Information*
5. Campus President Housing – Assessments and Immediate Maintenance Needs, *Information*

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

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

July 23, 2013

Members Present

Roberta Achtenberg, Acting Chair
Douglas Faigin
Margaret Fortune
Steven M. Glazer
Henry Mendoza
Lou Monville
Timothy P. White, Chancellor
Bob Linscheid, Chair of the Board

Trustee Achtenberg, Acting Chair, called the meeting to order. On behalf of the committee she expressed goodwill toward ailing Chair William Hauck.

The minutes of May 21, 2013 were approved by consent as submitted.

Report on the 2013-2014 Support Budget and Multi-Year Funding/Performance Plan

Mr. Robert Turnage, assistant vice chancellor for budget, reported that the governor had signed the budget on time, at the end of June; that it was largely consistent with the January budget proposal and what had been presented to the board in March; and that it represents a reinvestment on the part of the state in the California State University and public education generally. Specifically, he cited a programmatic increase of \$125.1 million to the CSU, as included in each of the January proposal and May revision, and noted that \$10 million earmarked to address bottlenecks and other problematic course issues has garnered especial interest. He further noted that while the dollar amounts did not change, a considerable amount of policy debate ensued between January's proposal and the adoption of the final state spending plan, including discussion surrounding a contemplated accountability performance plan as well as a middle class scholarship program anticipated to be phased in over several years. He expressed appreciation for the collaborative and ultimately successful efforts of various stakeholders involved in advocacy on behalf of the university. He also commented on the value of partnering cooperatively with the University of California to achieve shared objectives.

Report on the Refinancing of California State University Debt

Mr. George Ashkar, assistant vice chancellor for financial services, and Mr. Robert Eaton, senior director for financing and treasury, reported jointly on the refinancing of debt and related analysis. Mr. Ashkar reminded the board that they had requested a detailed analysis of the university's refinancing activities at their regular meeting in May.

Mr. Eaton noted that, broadly speaking, the CSU has conducted two types of refinancing activity through the university's Systemwide Revenue Bond (SRB) program. The first concerns the refinancing of standalone auxiliary debt, which Mr. Eaton explained is debt that has been issued by an auxiliary under its own name and credit without support from the CSU. He reported that since it began its program of opportunistically refinancing auxiliary debt in 2005, the CSU has refinanced \$554 million of auxiliary bonds into the SRB program and realized net value savings of \$36.9 million. In addition to savings generated by lower overall rates, he commented on savings generated by the resultant reduced risk to bondholders and lower cost of capital to the CSU, as well as the advantages afforded by the SRB program owing to structural requirements associated with the auxiliary bond model. He then reported that just two auxiliaries currently have outstanding standalone bonds, totaling \$45.7 million, and related the reasons why they are currently ineligible for refinancing.

Mr. Eaton then moved on to a brief overview of refinancing activities related to existing SRB debt, in light of historically low interest rates in recent years. To provide additional background on rates he introduced Mr. Dick King, director of public finance with Barclays Capital. Mr. King cited declining interest rates over the past thirty years, notwithstanding slight increases in recent weeks, and opined that the university is excellently-positioned to take advantage of the record lows. He also related that it is the general consensus of economists that interest rates are anticipated to remain stable going forward.

Mr. Eaton continued his report with remarks concerning the university's 2011 and 2012 bond sales, noting that \$489 million worth of existing SRB bonds had been refinanced resulting in net present value savings of \$62.7 million. He further reported on the 2013 bond sale presently underway, noting that \$309 million in bonds will be issued with net present value savings of \$19.8 million. Mr. Eaton also commented that the sale benefitted from a recent upgrade of the SRB program's debt rating, from A-plus to AA-minus, by Standard & Poor's. Additionally, he noted that the SRB program is rated in the AA categories by both Standard & Poor's and Moody's for the first time in its history.

In response to questions from Trustee Achtenberg, Mr. Eaton commented on rating system conventions and concluded that the university is very well-rated. By way of comparison, Mr. Eaton noted that the UC system is rated slightly higher than the CSU and Mr. Ashkar noted that the CSU is rated two levels above the State of California.

Mr. Eaton remarked that, with the 2011, 2012 and 2013 bond sales, the CSU has issued \$795 million in bonds over the last two years to refinance existing SRB and generate net present value savings of \$81.9 million. Twenty-one of twenty-three campuses have benefitted from the refinancing of SRB debt, with a combined cash flow savings of approximately \$6 million annually.

In summary, Mr. Eaton noted that, when combining the refinancing of SRB debt and auxiliary debt, the CSU has issued \$1.4 billion in Systemwide Revenue Bonds, or 39% of the existing SRB portfolio, to refinance debt producing savings totaling \$119.4 million. And when combined with the CSU's new money issuance over the last couple of years, well over half, 56%, of the CSU's existing SRB portfolio has been issued to take advantage of reduced rates. Mr. Ashkar added that an additional \$20 million in savings resulting from the 2013 sale that took place since the publishing of the board documents brings the university's total savings to \$119 million.

In response to a question from Trustee Achtenberg, Mr. Eaton affirmed that the CSU does not currently anticipate issuing further bonds for auxiliaries on a standalone basis, consistent with the board's policy of financing via the broad-based program and owing to the aforementioned disadvantages associated with the auxiliary model. Mr. Ashkar concurred, noting that the objective is to refinance and pay off the debts within the realm of the SRB program.

Trustee Achtenberg commended Mr. Ashkar and his staff for their work leveraging market conditions to the benefit of the campuses.

In response to a question from Trustee Mendoza, Dr. Benjamin Quillian, executive vice chancellor and chief financial officer, clarified that the savings referenced are on the auxiliary level and therefore unavailable for deposit to the general fund.

Mr. Eaton expanded on Dr. Quillian's remarks, noting that the SRB program is self-contained and therefore retains its revenues, which are not necessarily available to the general fund or for operational support.

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

Mr. George Ashkar, assistant vice chancellor for financial services, explained that the item requests that the board authorize the issuance of systemwide revenue bonds and bond anticipation notes in an amount not to exceed \$30,777,000 to finance CSU Fullerton Auxiliary Services Corporation's acquisition of two, two-story office park buildings, Banting 1 and Banting 3, in the city of Irvine. He detailed the square footage, construction history, current tenancy and parking capacity of the buildings, and reported that an appraisal of the buildings on June 5, 2013 assigned a market value of \$31 million. He also commented on debt service coverage for the project as compared to the CSU benchmarks for both the project and the auxiliary debt program, and averred that comparable gross rental rates confirm equitability

between the campus and the auxiliary. He stated that President Mildred García is in discussions with both Saddleback College and Irvine Valley College to negotiate a strategic agreement governing the transfer of students from those institutions wishing to matriculate at the contemplated satellite campus.

Dr. Mildred García, President, CSU Fullerton, indicated that the property acquisition represents an excellent opportunity to serve students in Orange County, especially given steady enrollment growth. In response to a question from Trustee Monville she affirmed that a dearth of adequate space for instruction represents an ongoing issue at the campus and in the Irvine area generally.

In response to a question from Trustee Mendoza, Mr. Ashkar commented on the property's current tenants with respect to its valuation, and related the timeline within which the entire facility is expected to be available for instructional purposes.

Upon motion duly made and seconded, the committee approved the resolution, RFIN 07-13-05.

Granada State University House – Funding Plan

Dr. Benjamin Quillian, executive vice chancellor and chief financial officer, reminded the board that it had approved at its regular meeting in May a ten-year plan for the repair of the Granada State University House. A trust established in 1991, from which monies for maintenance and repairs were to be drawn, was approved for transfer to the CSU Foundation due to its yielding a very low return on investment. At the behest of the board, he reported, a previously-presented pro forma projection of anticipated expenditures and investment returns has been amended to reflect a more conservative estimation, reduced from 10% to 5%. He remarked that even the lower projection, while decreasing the endowment by \$400,000 over ten years, handily bests the returns garnered by the current trust account. He also presented an alternate scenario featuring a 7% return on investment, which he opined to be more realistic.

In response to a question from Trustee Mendoza, Dr. Quillian affirmed that the property in question is the chancellor's residence.

Trustee Achtenberg adjourned the Committee on Finance.

COMMITTEE ON FINANCE

Planning for the 2014-2015 Support Budget Request

Presentation By

Robert Turnage
Assistant Vice Chancellor
Budget

Summary

As part of the preparation of the CSU support budget request for the governor's 2014-15 budget, the Board of Trustees will be provided with an overview of the state's fiscal condition and budget challenges for the upcoming fiscal year. The board will be presented with preliminary assumptions for purposes of crafting a budget request to the governor that will come back to the board for review and approval in November.

State Budget Overview

The State Constitution requires the submittal of the Governor's budget proposal each year by January 10, and in order to meet the consequent deadlines for the submittal of budget requests to the Department of Finance, it is necessary to commence planning for the requested CSU 2014-15 support budget.

The significant tax revenues produced by Proposition 30 and the ongoing economic recovery allowed the state to begin anew to invest in public higher education, including a \$125.1 million programmatic funding increase for the CSU in the recently enacted 2013-14 budget.

The state, however, may continue to experience fiscal challenges in 2013-14 as well as 2014-15. The enacted 2013-14 budget included an estimated General Fund reserve of \$1.1 billion. Already, however, the Governor has proposed drawing \$315 million from the reserve to respond to federal court rulings regarding prison overcrowding, with another \$400 million estimated for expenditure in the 2014-15 fiscal year. Also, early in this year's fire season, it is already clear that state firefighting costs will draw down the General Fund reserve to a significant extent. There are risks on the revenue side of the state's ledger, too. National and state economic recovery remains stubbornly sluggish, in part due to the economic drag created by the prolonged federal budget sequestration. There are growing concerns among many economists that political impasse on the federal budget and the federal government's borrowing authority (the debt ceiling) could shock the national economy back into recession.

On the other hand, if the state's economic recovery continues, state revenues could grow by as much as 7.5 percent in 2014-15, according to projections by the Legislative Analyst's Office. Thus, the outlook for 2014-15 at this point ranges from continuing constraint to significant opportunity.

The Governor's Multi-year Funding Plan for the UC and CSU

Last January Governor Brown's budget proposal included his call for a multi-year plan to provide funding stability to the University of California (UC) and the CSU. This plan, reiterated in the Department of Finance's enacted budget summary reflecting the signed 2013-14 Budget Act, calls for state funding increases to the two universities totaling \$511 million each over the course of four years culminating with the 2016-17 fiscal year. This recognizes the fact that both universities endured state funding reductions in equal dollar amounts during the recent half decade of fiscal crisis. The cumulative increase occurs in annual increments as follows:

- \$125.1 million in 2013-14
- \$142.2 million in 2014-15
- \$119.5 million in 2015-16
- \$124.3 million in 2016-17
- Cumulative increase in annual funding = \$511.1 million

Although the legislature has not adopted this plan, it did approve the first-year increase of \$125.1 million in 2013-14.

2014-15 CSU Support Budget—Preliminary Planning Approach

In this agenda item we share with the board a preliminary plan for the crafting of a support budget request for 2014-15 for the university. The planning approach is tempered by a recognition of the state's ongoing fiscal challenges, yet represents a credible statement of the university's key funding needs.

Preliminary Expenditure Plan.

The preliminary expenditure plan, shown as increases to the CSU's current baseline from state funds, tuition and systemwide fees, is summarized below. At this point, these estimated amounts are preliminary and highly approximate. These recommended items would require new ongoing revenues from the state of roughly \$250 million. This preliminary expenditure plan clearly exceeds the minimum \$142.2 million increase specified for 2014-15 under the Governor's multi-year plan. However, it is a statement of the university's true funding needs and—given the possibility that 2014-15 state revenues could grow substantially above current levels—presents worthy opportunities for the state to invest further in the students, faculty and staff of the CSU.

The enrollment demand item would accommodate not only growth in the number of students admitted and served, but would also help accommodate demand by current students for additional courses (allowing improved time-to-degree). The costs of accommodating additional enrollment can be partially offset by the additional tuition fee revenue generated by the extra enrollment. An estimate of this additional fee revenue is factored into this preliminary plan. It should be noted that this plan assumes no increase in tuition fee rates for the 2014-15 academic year.

| | |
|--|-------------------|
| • Mandatory costs (health benefits, new space, energy) | \$20 million |
| • Compensation increase (3 percent “pool”) | \$90 million |
| • Augmentations for various student success efforts | \$50 million |
| • 5 % Enrollment Demand | \$160 million |
| • Financing maintenance and infrastructure needs | \$15 million |
| Total ongoing expenditure change | \$335 million |

This preliminary expenditure plan would bring annual spending for support of the CSU to almost \$4.4 billion, including student fee revenues (net of financial aid).

The CSU’s backlog of facility maintenance and infrastructure needs, even if restricted to the highest priority needs, is massive and growing. State funding for capital outlay has reached critically low levels in recent years and constrained annual support budgets cannot keep up with maintenance needs. This preliminary plan would attack the problem by building up—with annual increments of \$15 million over the three remaining years of the Governor’s multi-year plan—an ongoing “base” of \$45 million available for annual debt service on bonds. This option would allow the CSU to finance an estimated \$750 million to \$800 million, depending on interest rates, of vitally needed work—addressing deferred maintenance priorities, but also upgrading and replacing basic infrastructure (such as campus electrical systems and water systems dating back more than a half century). Such a program could also address key needs in terms of technology infrastructure and instructional equipment replacement.

Preliminary Revenue Plan. The following preliminary plan for increased revenue would provide the resources needed to meet the preliminary expenditure plan.

Total State General Fund Increase **\$250 million**

Tuition Fees Revenue Adjustments:

- Net tuition fee revenue from enrollment growth **\$85 million**
- Change in enrollment patterns **(to be determined)**

Total Tuition Fee Revenue Increase **\$85 million**

Total Revenue Increase **\$335 million**

This preliminary revenue plan strikes a balance in meeting the increased expenditure needs of the CSU between an amount that can be reasonably requested from the state and an amount that can be reasonably provided through tuition fee revenues generated by enrollment growth. Development of a 2014-15 budget request on these lines would provide the governor and legislature with an achievable plan for investment in the CSU for the sake of California's economic and social future. The plan is capable of reprioritization if, ultimately, the university must budget within the minimum \$142.2 million funding increase specified for 2014-15 under the Governor's multi-year plan. At this preliminary stage, however, the planning effort focuses on stating needs and being positioned for opportunity.

Estimated amounts for each item on the above lists may be revised, based on updated information, in the course of preparing the budget for the board's review and approval in November.

Conclusion

This is an information item presenting a preliminary framework for the 2014-15 support budget request to the Department of Finance and governor. The board will be presented with an updated and detailed budget recommendation in November as an action item.

COMMITTEE ON FINANCE

2014-2015 Lottery Revenue Budget

Presentation By

Robert Turnage
Assistant Vice Chancellor
Budget

Summary

The lottery revenue budget proposal for fiscal year 2014-15 is presented as an information item. The lottery revenue projection for 2014-15 is \$46 million. After setting aside \$5 million for CSU's systemwide reserve, \$41 million is available for allocation. The 2014-15 Lottery Revenue Budget proposal reflects an increase in projected support from fiscal year 2013-14 as a result of higher trends in lottery receipts with the addition of Powerball to the list of California Lottery offerings. It is recommended that \$2 million in projected revenue increases be used to make base funding adjustments to account for enrollment increases that have occurred since 2008-09.

Beginning CSU lottery reserves are restored to their historical \$5 million figure in the 2014-15 proposed lottery budget as a result of higher annual trends in lottery receipts and diminishing carry forward balance previously used to assist with program need. CSU does not anticipate any additional carry forward funds at the onset of the 2014-15 fiscal year above the \$5 million proposed reserve. The \$5 million beginning reserve is used to assist with cash-flow variations due to fluctuations in quarterly lottery receipts and other economic uncertainties. Campuses' interest earnings from lottery allocations are distributed to the campuses individually in accordance with CSU Revenue Management Program guidelines and procedures.

2014-15 Lottery Budget Proposal

After setting aside the \$5 million beginning reserve, the \$41 million 2014-15 lottery budget proposal remains principally designated for 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. Of the \$41 million available for expenditure, \$3.9 million funds: the Chancellor's Doctoral Incentive Program (\$2 million) which provides 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 (\$714,000) which supports CSU students who aspire to earn doctoral degrees and who have experienced economic and educational disadvantages; and, the CSU Summer Arts Program (\$1.2 million) which offers academic credit courses in the visual, performing, and literary arts.

The remaining \$37.1 million in 2014-15 lottery funds will continue to be used for campus based programs (\$31.5 million), financial aid for the trustee-approved Early Start program (\$5 million) and lottery fund/system programs administration (\$544,000). Campus-based program funding is undesignated and allows presidents considerable flexibility in meeting unique campus needs. Traditionally, projects receiving campus-based funds have included the purchase of new instructional equipment, instructional equipment replacement, curriculum development, and scholarships. Early Start program funds will provide campus-based financial aid for student enrollment in the Early Start summer curriculum regardless of financial need. The program serves first time freshman students who are deficient in math and English skills through remedial instruction during the summer term prior to matriculation at any of the CSU campuses. Although Summer 2014 is the leading term for the 2014-15 college year, it is necessary to pre-fund the waivers by setting aside funds each year in advance of the upcoming summer term. Campuses receive reimbursement funding based on actual student enrollment following the end of the summer instructional program.

In the 2012-13 fiscal year, 92 percent of lottery allocations were spent on supplemental instructional and instructionally related programs and services for students and faculty. The following table summarizes how lottery funds allocated for the 2012-13 fiscal year were expended.

| 2012-13 Lottery Expenditure Report | | |
|---|---------------------|---|
| (in 000s) | | |
| Program Support Area | Expenditures | Percentage of Total Expenditures |
| Academic | \$ 16,292 | 40.7% |
| Library Services | 11,477 | 28.7% |
| Student Services | 2,816 | 7.0% |
| Administrative | 3,025 | 7.6% |
| Financial Aid | 6,074 | 15.2% |
| Classroom Maintenance | 100 | 0.3% |
| Community Relations | 203 | 0.5% |
| Total Expenditures | \$ 39,987 | 100.0% |

The CSU lottery revenue budget proposed for 2014-15 is as follows:

2014-15 Proposed Lottery Revenue Budget

| | 2013-14 Adopted Budget | 2014-15 Proposed Budget |
|--|---------------------------------------|--|
| Sources of Funds | | |
| Beginning Reserve | \$ 3,000,000 | \$ 5,000,000 |
| Receipts | 39,000,000 | 41,000,000 |
| Total Revenues | \$ 42,000,000 | \$ 46,000,000 |
| <i>Less Systemwide Reserve</i> | <i>(3,000,000)</i> | <i>(5,000,000)</i> |
| Total Available for Allocation | \$ 39,000,000 | \$ 41,000,000 |
| 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 |
| | \$ 3,914,000 | \$ 3,914,000 |
| <i>Campus-Based Programs</i> | | |
| Campus Programs | \$ 29,555,000 | \$ 31,542,000 |
| Campus Early Start Financial Aid | 5,000,000 | 5,000,000 |
| | \$ 34,555,000 | \$ 36,542,000 |
| <i>Lottery Fund & System Programs Administration</i> | \$ 531,000 | \$ 544,000 |
| Total Uses of Funds | \$ 39,000,000 | \$ 41,000,000 |

This item is for information only and an action item will be presented at the November 2013 meeting to adopt the 2014-15 lottery revenue budget.

COMMITTEE ON FINANCE

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

Presentation By

George V. Ashkar
Assistant Vice Chancellor
Financial Services

Summary

This item requests the Board of Trustees to authorize the issuance of Systemwide Revenue Bonds and the issuance of Bond Anticipation Notes (BANS) to support interim financing under the commercial paper program of the California State University in an aggregate amount not-to-exceed \$25,370,000 to provide financing for a campus project. The board is being asked to approve resolutions related to this financing. 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 as the existing Systemwide Revenue Bonds.

The project is as follows:

San Diego Granada Apartments Acquisition

San Diego State University has the opportunity to acquire a privately owned apartment complex, commonly known as the Granada on Hardy located near the southwest footprint of the master planned area of the campus. The project, developed in 2011 on 0.68 acres, consists of 49 apartment units (189 beds) housed in one four-story building constructed over two levels of underground parking containing 126 spaces for cars and 8 spaces for motorcycles. There is also a small retail convenience store of 800 square feet on the premises. The facility has approximately 104,000 gross square feet. The project currently houses San Diego State University students and will continue to provide housing to the student population in support of the campus goal of becoming a more residential and less commuter-based campus. The facility will be operated by the San Diego State University housing program.

The purchase price is established at \$25,370,000 and is supported by an appraised market value of \$26,000,000 as of May 2013. The campus has completed the due diligence on the project in compliance with the California State University requirements for real property acquisition. Final determinations on the project's property condition inspection, seismic condition, ADA, etc., have

also been completed by the campus. The campus due diligence process did not reveal any cause for concern and found the property acceptable to be occupied.

The not-to-exceed par value of the proposed bonds is \$25,370,000 and is based on a total project budget of \$25,788,000 (including closing costs), plus net financing costs (estimated at \$620,000), reduced by a contribution of \$1,038,000 from the housing program reserve.

The following table summarizes key information about this financing transaction.

| | |
|--|-----------------------------------|
| Not-to-exceed amount | \$25,370,000 |
| Amortization | Approximately level over 30 years |
| Projected maximum annual debt service | \$1,737,402 |
| Projected debt service coverage including the new project: | |
| Net revenue – San Diego pledged revenue programs: ¹ | 1.78 |
| Net revenue – Projected for the campus housing program: | 1.71 |

1. Combines 2012/13 information for all campus' pledged revenue programs and projected 2014/15 operations of the project with expected full debt service.

The not-to-exceed amount for the project, the maximum annual debt service, and the ratios above are based on an all-in interest cost of approximately 5.75%, reflective of adjusted market conditions plus 100 basis points as a cushion for changing financial market conditions that could occur before the permanent financing bonds are sold. The financial plan includes level amortization of debt service, which is the CSU program standard. The campus financial plan projects a housing program net revenue debt service coverage of 1.71 in the first full year of operations in 2014/15, which exceeds the CSU benchmark of 1.10. When combining the project with 2012/13 information for all campus pledged revenue programs, the campus' overall net revenue debt service coverage for the first full year of operations is projected to be 1.78, which exceeds the CSU benchmark of 1.35.

Trustee Resolutions and Recommended Action

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

1. Authorize the sale and issuance of Systemwide Revenue Bond Anticipation Notes and the related or stand-alone sale and issuance of the Trustees of the California State University Systemwide Revenue Bonds in an aggregate amount not-to-exceed \$25,370,000 and certain actions relating thereto.

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

Approval of the financing resolutions for the project as described in this Agenda Item 3 of the Committee on Finance at the September 24-25, 2013, meeting of the CSU Board of Trustees is recommended for:

San Diego Granada Apartments Acquisition

COMMITTEE ON FINANCE

Student Housing Project on Private Property Adjacent to California State University, San Bernardino

Presentation By

George V. Ashkar
Assistant Vice Chancellor
Financial Services

Tomás D. Morales
President
California State University, San Bernardino

Summary

California State University, San Bernardino proposes to enter into a long-term management agreement with Capstone Development Partners, LLC, ("Capstone") relating to an approximate 510 bed student housing project on 6.5 acres of privately owned land directly across the street from campus. This item requests the board to grant the authority to the chancellor to enter into management and other related agreements associated with this project.

Background

The San Bernardino campus has a strategic goal of developing additional freshman housing in an effort to increase student participation in university-related activities, enhance retention rates and increase graduation rates. The university currently has 1,390 beds to serve a student enrollment of more than 18,000. The university seeks to establish a relationship with Capstone to increase the available supply of freshman housing by approximately 510 beds in a development to be constructed on privately owned land adjacent to the campus. This additional housing would increase the number of available beds to 1,900, providing housing for 18 to 20 percent of the freshman student population.

Board Policy

The Board of Trustees is responsible for approving long-term contractual relationships that use or develop campus land, including public-private partnerships. Although this development is not on property under the control of the trustees, the long-term nature of the management agreement and an option to acquire the property in the future warrant concept approval of this project.

Proposed Project

The proposed 129,300 GSF project is to be built by Capstone, a private developer that specializes in student housing, at the southwest corner of the main entrance of the campus. The building will house approximately 510 beds for freshman with semi-suite and full-suite designs. A community center will provide approximately 8,000 net square feet of lounge space, food service, fitness room and administrative support space. An estimated 100 parking spaces will be included. The building complex will comprise a four-story student housing building and the single story community center. The building design complements existing campus housing style, design and building material. The facilities will consist of concrete slabs on grade, wooden frames, stucco exteriors, drywall interiors and attractive and highly durable concrete roofs. Capstone will work with the campus to ensure that the project meets campus programmatic needs.

Capstone will finance and construct the project on private land utilizing Capstone's financial resources to increase the supply of student housing adjacent to the campus. No campus or university funds will be used in the construction or financing of the project.

The campus' proposed management agreement with Capstone will ensure that a) this housing opportunity is appropriately marketed to incoming students; b) campus residential life programs are offered; c) student discipline procedures are followed; d) if there is sufficient demand, the campus will not be prevented from constructing other student housing on campus land; and e) the campus will not be required to meet a certain occupancy rate of the developer-constructed housing. A limited option agreement will give the university a non-binding opportunity to purchase the project from the developer in the future with a "not to exceed" purchase price. Separate board approval would be sought should the campus elect to exercise such an option.

The campus presented the project to the Student Housing Proposal Review Committee on July 22, 2013. The committee provided a positive recommendation to the campus supporting the project.

Recommended Action

The following resolution is recommended for approval:

RESOLVED, by the Board of Trustees of the California State University, that the trustees:

1. Approve the project concept to support the university's educational mission and academic programs by facilitating the long-term provision of additional student housing to the campus area.

2. Authorize the chancellor, or his designee, to enter into negotiations and agreements as necessary to facilitate the project as described in Agenda Item 4 of the September 24-25, 2013 meeting of the Committee on Finance.

COMMITTEE ON FINANCE

Campus President Housing – Assessments and Immediate Maintenance Needs

Presentation By

Benjamin F. Quillian
Executive Vice Chancellor and
Chief Financial Officer

Campus President Housing Assessments

The California State University (CSU) is conducting a facility condition assessment and developing a ten-year maintenance plan for all single family housing units assigned to its university presidents. Eleven of the twenty-three campuses have state or auxiliary owned single family housing in which the president is required to reside. In addition to the president's residence, Maritime Academy also provides a residence for the captain and commandant, bringing the total number of units to be assessed to thirteen.

The assessments will include all physical conditions as well as applicable codes compliance. Cannon Design based in Los Angeles, was selected after a competitive bid process, to conduct the assessments. The assessments will commence early Fall 2013 and culminate in a comprehensive report delivered to the Office of the Chancellor.

Campus President Housing Immediate Maintenance Needs

1. California State University, Long Beach - Miller House

The Miller House is the official residence of the president of California State University, Long Beach (CSULB). There are significant deferred maintenance issues that need to be addressed in order to maintain the full value of this state facility, and the departure of the former president has presented an opportune time to address the most significant interior and exterior issues. This item addresses the highest priority deferred maintenance needs of the Miller House.

Background

The home was willed to the Board of Trustees of the California State University by Lorraine H. Miller Collins with the stipulations that the residence be known as the Miller House, that it be used solely and exclusively as the official residence of the president of the CSU Long Beach and his/her family, and that it be properly maintained. The amount of \$200,000 was provided by the estate to establish the Earl and Lorraine Miller Memorial Fund. The income derived from the

principal balance is to be used for the care, maintenance and repair of the home. In order to ensure the efficient administration of the Miller House, an operating lease agreement was executed on February 7, 1992 between the Trustees and the CSU Long Beach Foundation (Auxiliary).

The 5,100 square foot Miller House is located in Long Beach. It is a single story, single family residence with four bedrooms and four bathrooms, built in 1964. The home is utilized for cultural, fundraising and social activities in support of CSU Long Beach.

Current Condition of The Miller House and Funding Requirements

The majority of existing components that serve the home are from the original construction. Only minor modifications have been made throughout the years. Basic interior work, including refinishing of the wooden floors throughout the home, painting of all walls and ceilings, replacing of ceramic floor tiles damaged by lead in two bathrooms, and upgrading of the wireless infrastructure, began in July 2013 and will be completed in September 2013.

Deferred maintenance needs of \$586,238 will be addressed beginning in October 2013 and completed no later than June 2014. This amount will be funded through the CSU Long Beach Deferred Maintenance budget. It is anticipated that these repairs will reduce ongoing utility and maintenance costs, and will include replacing the roof and air conditioning system. The roof was part of the original construction and is prone to leaks and needs to be replaced. The existing HVAC system was also installed as part of the original building, and in comparison to current technologies, is inefficient and does not have the proper controls system needed to minimize energy consumption. The replacement system will consume less energy, meet current code requirements, and minimize the structural and architectural impact to the existing building. Additionally, chipping and peeling in the exterior paint is exposing surfaces that will require remediation or replacement as well as re-painting of the exterior of the home. Re-piping and re-wiring will also be necessary in order to maintain the value of the Miller House.

2. California State University, Fullerton - El Dorado Ranch

Background

The 4.5 acre El Dorado Ranch property located in Fullerton is designated as the official residence of the president of CSU Fullerton, and was donated to the campus by the Chapman family in 1989. The property consists of a two story main house, a single story detached apartment, an observation tower, and an employee residence. The main house was built in 1919 and was remodeled in 1951. The home is utilized for cultural, fundraising, and social activities in support of CSU Fullerton.

There are significant deferred maintenance issues that need to be addressed in order to maintain the full value of this state facility. In order to ensure the efficient administration of El Dorado Ranch, an operating lease agreement was recently executed between the Trustees and the CSU Fullerton Auxiliary Services Corporation (Auxiliary). This item discusses the need to immediately proceed with only highest priority issues of safety and security.

Current Condition of Main House on the El Dorado Ranch and Funding Requirements

The main house was originally built on the 90 acre El Dorado Ranch. Property surrounding the president's residence has been sold and developed over the years and is now surrounded by homes on three of its sides and a roadway on the fourth side. West of the property are various apartment complexes. The roadway leading from the street to the El Dorado Ranch home currently does not have a gate or any type of barrier to restrict access to the property. The south perimeter does not have security fencing, and only provides shrubs as barrier from the road. There is wood fencing along the east perimeter, however, it is deteriorated and is in need of replacement.

Over the last 24 years, very little changes have been made to the property or the main house to improve security. A security camera system was installed in 2010, which allows the CSU Fullerton Police Department to remotely monitor critical areas, but does not provide surveillance of the entire property. There is concern about vulnerability to intrusion, particularly when the president is away from the property traveling on business. To secure the property, and reduce risk of intrusion, the CSU Fullerton Police Department is recommending the installation of a metal vertical style security fence along the south and east perimeter to enclose the property. They have recommended that along the south perimeter the fence should be inside the shrubbery line and that the main driveway should have an automatic gate to restrict access to the property including intercom, camera, key pad and remote opening device. The total cost for this work is anticipated to be approximately \$133,000-\$153,000, significantly lower than initial estimates, and will commence early Fall 2013. This project will be funded through the campus interest earnings account.