AGENDA

COMMITTEE ON FINANCE

Meeting: **9:30 a.m., Tuesday, March 15, 2005**
Glenn S. Dumke Auditorium

William Hauck, Chair
Shailesh J. Mehta, Vice Chair
Roberta Achtenberg
Carol R. Chandler
Debra S. Farar
Bob Foster
Eric Guerra
Raymond W. Holdsworth
Kathleen E. Kaiser

Consent Item

Approval of Minutes of Meetings of January 25, 2005

Discussion Items

1. Report on the 2005/2006 Support Budget, *Information*
2. Evolution of the Board of Trustees Financing Programs Including the Systemwide Revenue Bond Program and an Update on the Status of the California State University's Debt Program and Debt Capacity, *Information*
3. Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for Various Projects, *Action*
4. Auxiliary Organization Taxable Financing California Polytechnic State University, San Luis Obispo, *Action*

MINUTES OF THE MEETING OF
COMMITTEE ON FINANCE
Office of the Chancellor
Glenn S. Dumke Conference Center
401 Golden Shore
Long Beach, California

January 25, 2005

Members Present

William Hauck, Chair
Roberta Achtenberg
Carol R. Chandler
Debra S. Farar
Murray L. Galinson, Chair of the Board
Eric Guerra
Kathleen E. Kaiser
Charles B. Reed, Chancellor

Approval of Minutes

The minutes of November 16, 2004 were approved.

Trustee Hauck announced that the committee items would be taken out of order due to time constraints. He noted there were two information items and three action items.

The three action items were discussed and the two information items were held-over for discussion at the March, 2005 meeting. Those items were:

Report on the 2005/2006 Support Budget; and Evolution of the Board of Trustees Financing Programs Including the Systemwide Revenue Bond Program and an Update on the Status of the CSU's debt Program and Debt Capacity

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

Mr. Dennis Hordyk, assistant vice chancellor, financial services presented the item.

Mr. Hordyk explained the item requested Board of Trustee approval for issuance of Systemwide Revenue Bonds and interim financing under the CSU's commercial paper program in a aggregate amount not-to-exceed $178,385,000 to provide funds for five projects.

It was decided to present all five projects at once and vote on a single resolution.

The five projects were as follows:

Hayward Pioneer Heights Phase II Student Housing; Pomona Parking Structure I; San Francisco Student Housing – Villas at Parkmerced, Lot 42 Property Acquisition Project; Fresno Association Inc. – Save Mart Center Refinancing; and San Marcos University Corporation – Student Housing Refinancing

Mr. Hordyk reviewed the details of each project as presented in the printed agenda and answered questions from several trustees on the various projects.

The committee recommended adoption of the proposed resolution (RFIN 01-05-01).

Auxiliary Organization Tax-Exempt Financing at Sonoma State University

Mr. Hordyk explained the item was a request by the Sonoma State Academic Foundation, Inc., to issue four-year tax-exempt notes in an amount not-to-exceed $13,000,000 to partially fund the construction of a concert hall at the Donald and Maureen Green Music Center to be located on the Sonoma State University campus.

Mr. Hordyk reviewed the details of the project and explained the financial structure for funding the project. He noted the Systemwide Revenue Bond portion of the project would be brought back to the committee for approval this spring.

Dr. Rueben Armiñana, president, Sonoma State University, described the multi-faceted benefits of the project noting that this was a landmark facility in that it combines performance, education, and community involvement.

Trustee Esparza inquired if any effort had been made to seek diversity in the underwriting team for the project. President Armiñana responded that such efforts would be coordinated at the system level rather than the campus level. Trustee Esparza said he hoped that diversity would be a major consideration in all cases, and discouraged sole source situations.

Trustee Kaiser expressed concern about the use of letters of credit from donors for the project, and asked for clarification on how the university would be protected in the event of a default.

Mr. Richard P. West, executive vice chancellor and chief financial officer, explained that donors must pledge actual assets to the lending bank in order to back those letters of credit. Therefore, in the event of a default, the lending bank would collect those assets eliminating any real loss to the university.

The committee recommended adoption of the proposed resolution (RFIN 01-05-02).

Auxiliary Organization Tax-Exempt and Taxable Financing at San Diego State University

Mr. Hordyk explained that the San Diego State University Foundation was requesting approval to issue stand-alone financings for their sorority housing projects. Mr. Hordyk provided the background information and financial details for the project. He pointed out the reason for pursuing financing for this project outside the Systemwide revenue bond program was due to the condominium (resale) nature of the project.

A discussion took place regarding selection criteria utilized by private organizations like sororities and fraternities and how that criteria influences and/or impacts non-discriminatory membership practices. It was determined this was an issue that required further discussion and would be brought back to the board at the March 2005 meeting.

The committee recommended approval of the proposed resolution (FRIN 01-05-03).

The committee heard comments and answered questions from a member of the public concerning the content of a portion of the minutes of the November 16, 2004 Committee on Finance.

Chancellor Reed asked that Mr. West and Patrick Lenz (assistant vice chancellor, budget development) make the presentation on Systemwide Revenue Bonds, and the Report on the 2005/2006 Support Budget scheduled for this meeting at the March 2005 board meeting.

Mr. Hauck adjourned the meeting.

COMMITTEE ON FINANCE

Report on the 2005/2006 Support Budget

Presentation By

Richard P. West
Executive Vice Chancellor and
Chief Financial Officer

Patrick J. Lenz
Assistant Vice Chancellor
Budget Development

Summary

The 2005-06 budget provides an augmentation of $211.7 million to the California State University that begins the fiscal recovery after three years of budget reductions totaling over $524 million. The Board will be given a brief overview of the 2005-06 budget, the recommendations of the Legislative Analyst Office (LAO) and initial reactions from the presentation by Chancellor Reed to the Senate and Assembly budget subcommittees.

2005/2006 Support Budget Overview

Total state spending for 2005-06 is $109 billion, $85.7 billion is from the state General Fund and $23.3 billion is from special funds. The administration anticipates state General Fund revenues of $86.9 billion, expenditures of $85.8 billion, a set-aside for encumbrances of $641 million and ending 2005-06 with a budget reserve of $500 million.

The January budget addresses a $9.1 billion budget gap between ongoing expenditures and anticipated revenues to support these expenditures in 2005-06. The budget issues associated with closing this $9.1 billion gap include:

- Continuing the suspension of Proposition 98 funding to K-12 and the community colleges for a savings of $2.3 billion.
- No longer requiring the state to fund the annual base program contribution costs for the state teacher retirement programs, $469 million.
- Suspending the requirement to transfer $1.3 billion from the state General Fund to the Proposition 42 transportation fund.
- Suspend transfer of $216 million in excess sales tax revenue from the state General Fund to the Public Transportation Account.

- $714 million in savings from CalWORKS and SSI/SSP (Supplemental Security Income/State Supplementary Program) by reducing the maximum monthly recipient grant by $47, deleting the requirement for a statutory COLA ($164 million), and adjusting the grant calculation on income allowance for working families.
- Limiting state participation for In-Home Supportive Services provider wages to the minimum wage, rather than the current $10.10 per hour for a savings of $195 million.
- $191 million in General Fund saving for prenatal care by replacing this with federal funds.
- Financing a settlement of flood-related litigation by issuing a judgment bond instead of $464 million in state General Funds.
- $408 million state General Fund savings would be achieved through the collective bargaining process with state employee groups to 1) Reduce the state's annual retirement benefits to PERS, 2) allow employees to opt out of future participation in PERS for a pay raise, and 3) switching to a defined contribution system for new state employees.
- Suspending most local mandates - $250 million
- Using $1.7 billion from deficit financing bonds (leaving nearly $2 billion)
- $915 million in other budget reductions including Medi-Cal savings, reimbursements for child care providers, eliminating the senior citizens property tax assistance program and reducing the seniors renters assistance program.

Addressing the $9.1 billion budget gap will present some challenging issues for the legislature, and in many cases the Governor will need legislation passed by both houses or a ballot initiative to enact these recommendations.

CSU Budget

The CSU assumes a budget of $2.6 billion from the state General Fund, approximately $1.2 billion from fee revenue, and $40 million from Lottery revenue for a budget of just over $3.8 billion in 2005-06. The 2005-06 CSU budget augmentation of $211.7 million consists of $110.5 million from the General Fund and $101.2 million from the increase in student fees. With the exception of a $7 million reduction for one-time funding in the 2004-05 fiscal year, the Governor's January budget is consistent with the revenue and expenditure assumptions requested and approved by this Board last October that include:

- Increasing enrollment growth by 2.5 percent to serve an additional 8,103 full-time equivalent students,
- A set-aside of $23.3 million for student financial aid,
- $40.7 million to cover CSU mandatory costs for the first time in the past three years,
- A compensation pool of $88.1 million, and
- $7.9 million for long-term needs including technology, libraries, and instructional equipment.

LAO Recommendations

The LAO has released their analysis of the 2005-06 state budget indicating that revenue projections are $2.2 billion higher and expenditures are $250 million lower than anticipated when the Governor released his budget in January. The LAO attributes the increase in revenues to the growth in the U.S. and California economies, particularly from sales tax receipts from business profits. Despite this additional revenue, the LAO believes the budget can only be balanced if the magnitude of savings proposed in the Governor's budget is realized. While the additional $2.4 billion in revenue is encouraging and the $9.1 billion in structural budget changes will allow the 2005-06 budget to be balanced, the state still will incur a $1.1 billion deficit in 2006-07.

Because the Analyst believes student participation rates will remain constant, they recommend that CSU enrollment grow by 2% next year rather than the 2.5% increase proposed in the Compact and Governor's budget. The Analyst also will recommend that budget bill language specify the enrollment expectation for 2005-06.

The Analyst recommends the state fund enrollment growth at $5,999 per FTES rather than the $6,270 based on 2004-05 marginal cost methodology. The reason for the reduction is to recognize the change in student faculty ratio 5% proposed in the Governor's 2004-05 budget. However, the CSU did not support this recommendation and subsequently worked with the Department of Finance to implement other budget reduction options. The Analyst also believes the marginal cost calculation should be the same for CSU and UC. Therefore the current calculation should be based on past year, not budget year inputs, and that the methodology should be reevaluated to address several issues. This recommendation results in an $11 million reduction in CSU enrollment funding.

The Analyst recommends that the legislature reduce the CSU General Fund appropriation by $24.4 million identified as savings associated with the second year of the excess unit surcharge phase-in. Finally, the LAO will recommend that $26.6 million in Student Aid Commission Ed Fund money be used to increase funding for Cal Grants so private universities receive the same benefit as the public universities. In total, the LAO will recommend that $61.6 million in Student Aid Commission Ed Fund monies be used to increase Cal Grant funding for all financially needy students.

Conclusion

The University does not agree with the LAO analysis and recommendations regarding the CSU budget. At the Board meeting the University's response to the LAO recommendations will be discussed.

COMMITTEE ON FINANCE

Evolution of the Board of Trustees Financing Programs Including the Systemwide Revenue Bond Program and an Update on the Status of the California State University's Debt Program and Debt Capacity

Presentation By

Dennis Hordyk
Assistant Vice Chancellor
Financial Services

Introduction

Like other major public universities, the CSU relies on a combination of internal and external funding sources to meet its capital needs. Internal funding sources, primarily campus and auxiliary organization revenues such as housing and parking, account for a relatively small share of capital funding sources. External capital funding sources include *(i)* State general obligation and lease revenue bonds; *(ii)* Systemwide Revenue Bonds (SRB) issued by the Trustees to fund enterprise activities such as student housing and parking; and *(iii)* a limited amount of auxiliary organization-issued revenue bonds to fund capital improvements that benefit the CSU.

Recently having completed the five-year nonstate capital portion of the 2005/06 Capital Outlay Program, the Chancellor's Office has worked with its financing team to analyze the CSU's debt capacity. Based on the current view of the capital market and the Compact for Higher Education, the team is developing a debt capacity model that incorporates quantitative factors, such as financial ratios, and qualitative factors such as student demand and the clear articulation of the system management team's strategy. At the Board meeting, a presentation will be provided to the Trustees to highlight the evolution of the CSU financing program and the result of the debt capacity analysis.

Early Bond Act Programs of the Board of Trustees

Prior to the formation of the CSU as a single system of higher education, new construction in the state colleges for academic projects was paid for by direct current year state budget appropriations on a project-by-project basis. However, for ancillary programs, primarily student housing projects at these colleges, the legislature had enacted the State College Revenue Bond Act of 1947 ("Bond Act") to provide a self-supporting financing vehicle independent of the appropriations of the State. The Bond Act gave the State Board of Education the authority to approve the issuance of such bonds with the approval of the State Board of Control.

In 1960/61, statutes were amended to create the California State Colleges as a single system (the Donahoe Higher Education Act). The Bond Act also was amended into the statutes governing the new California State College system, which was placed under the authority of its new Board of Trustees. In the amended statutes of the Bond Act, the Trustees replaced the State Board of Education in its role as having authority to approve the issuance of bonds for housing projects at any of the California State Colleges. The Bond Act was further amended to add specific authority to finance student unions, parking facilities and ancillary facilities, so designated by the Trustees. The Trustees also received specific authority to establish the level of fees necessary to support housing, student unions, parking, and health center operations, and to be able to pledge these fees for the support of debt repayment of bonds issued pursuant to the Bond Act.

Several years later the State Treasurer was designated the “agent for sale” and “trustee” for the bonds authorized under the Bond Act. In addition, a specific project revenue fund was created in the State Treasury known as the Dormitory Revenue Fund (“DRF”), a name that endures to this day even though the activity permitted under the Bond Act has significantly expanded to include many types of projects other than student housing.

During the 1960’s and through the 1980’s, the Trustees issued bonds for student housing on an as-needed basis under a systemwide housing program revenue bond indenture. All bonds issued under this program were secured by a pledge of the combined housing system revenue. An administrative review process within the Chancellor’s Office approved each campus housing facility’s operating and maintenance budget, and new projects. Bonds were sold on an as-needed basis to fund the individual projects. Parking facilities, which were almost always constructed as surface lots during this period, were funded on a cash basis from systemwide parking fees. The parking fees also funded operations and maintenance. As with housing, campus parking operating and maintenance budgets and proposed projects also were reviewed and approved by the Chancellor’s Office.

Finally, campuses individually funded student union facilities through the assessment of student fees approved through referenda. A program was developed for Trustees’ approval of individual revenue bonds for campuses that would be supported specifically by the campus fee. Student union budgets, including debt payments, operations and maintenance, were reviewed and approved at the Chancellor’s Office.

Program Management Decentralization

In the early 1990’s, under new executive leadership at the Chancellor’s Office, there was a fundamental policy shift made to link campus management responsibility with management authority accompanied by a reorganization and streamlining of functions at the Chancellor’s Office. Accordingly, the Bond Act programs for management of revenues, operations and maintenance of existing and future housing, parking, and health center programs were sequentially decentralized, and responsibility for these activities moved to the respective campus

President and Chief Financial Officer. Because student union debt was composed of individual campus indentures with fundamentally different covenants, the same management decentralization could not be accomplished without violating bond covenants. Therefore, this program was not decentralized until 2004.

Development of Auxiliary Organization Financing Activity

From the 1960's through the early 1980's, statutes permitted auxiliary organizations under the control and authority of the Trustees to perform ancillary activities such as grants and contracts management, bookstores, and food services. At that time, tax law did not permit tax-exempt financing for these entities, and the Trustees' policy did not include this activity as a permitted function. After passage of the Tax Reform Act of 1986, the Trustees' policy was changed to permit auxiliary organizations to undertake financings. The Chancellor's Office developed a program under which selected auxiliary organizations could market tax-exempt securities to fund various projects to fulfill their chartered campus purposes, subject to Board of Trustees' approval. This financing program continued to grow at an ever-increasing rate through the 1990's. During this time the credit analysis by the major rating agencies evolved to the view that these auxiliary credits have a direct impact on the overall University credit. The volume of this auxiliary organization financing activity continued to grow rapidly, becoming significant in an aggregate amount compared to DRF debt.

The Trustees' First Financing Policy Statement

During the late 1980's and 1990's, with the increased complexity in the DRF financing program, the establishment of the auxiliary organization financing program, and the beginning of programs for the use of State General Obligation Bonds and State Public Works Board Bonds for academic projects, there arose a need for a comprehensive policy statement by the Board to guide financing activities within the CSU. Therefore, in November 1998 the Trustees approved a "CSU Policy Statement for Financing Activities", a program-based framework that recapped important aspects of the existing financing programs in one document, and provided delegations to the Chancellor for operational expediency. The amended and current version (March 2002) of that policy is contained in Attachment B. The Trustees expressed their intent that this document be amended as needed and continue to be a single compilation that contains the Trustees' financing policies.

Development of the CSU's Commercial Paper Program

In the spring of 2000, the Chancellor's Financing and Treasury staff began exploring the possibility of developing a Tax-Exempt Commercial Paper program ("TECP") to provide substantial upfront cost savings for DRF projects. While the CSU did not have direct legislative authority to issue TECP, the staff felt that it might be possible to create such a program by using the assistance of a systemwide auxiliary organization. In January 2001, the Trustees approved a TECP program with an initial limit of $250 million in outstanding notes at any one time, and maintained the requirement that individual projects come before the Trustees for approval. Since the staff implemented the TECP program, it has produced millions of dollars in interest cost savings.

Early Debt Capacity and Credit Issues, and the Development of the Systemwide Revenue Bond Program

In the summer of 2000, the Chancellor's Office commissioned a comprehensive debt capacity study for the University. Since financing activity had increased over the years and rating agency approaches to debt capacity were evolving, the Chancellor's Office staff felt that information on the CSU's debt capacity could benefit the system and possibly provide insight on how to better manage the total debt of the University.

At the January 2001 meeting a debt capacity report was presented to the Trustees for information. The report provided an estimate of the existing CSU debt capacity based on capital market conditions at the time and a goal of maintaining a minimum of single "A" credit ratings. The report discussed the existing programs in an environment of rapidly expanding campus demand for financing; the current views of the credit rating agencies on debt management; and the concept that there could be better ways for the CSU to implement its debt programs.

The Chancellor's Office, as a result of the Trustee's discussion and findings in the debt capacity study, commissioned an additional study to review and, if possible, bring to the Trustees a conceptual proposal to improve the program. The study was to focus on the most effective method to:

- Strategically manage the University's debt program
- Reduce the cost of capital
- Maximize the use of limited debt capacity

By November 2001 the project team had developed conclusions and a conceptual plan, concluding that:

- The CSU should develop a systemwide, multi-source revenue pledge debt program.
- A strategic, disciplined and controlled approach to the use of debt would include almost all debt being issued through a systemwide multi-source revenue pledge program.
- Economies of scale and reduced costs would be achievable through the multi-source revenue program, by pooling cost of issuance, lower cost of capital and

credit enhancements, and more effective use of management time devoted to bond financings.

- Pledged revenues should consist of housing, student union, parking, student health facilities, and continuing education revenues, with selected auxiliary project revenues.

The Executive Vice Chancellor and Chief Financial Officer presented the conclusions and the plan to the Trustees, including the future steps necessary to further confirm details so that a proposal for action could be brought back for approval. In November 2001 the Finance Committee discussed in detail the status of the CSU debt program at that point, and the fundamental elements of the new program under development (Attachment A). At that time the program was entitled the Enhanced Capital Management ("ECM") but has since been termed the Systemwide Revenue Bond program ("SRB").

After extensive consultation among campus Presidents, campus Chief Financial Officers and the Chancellor's Office, the program was again brought to the Trustees in March 2002, where the Board approved the new program including the issuance of $145.2 million in new SRB bonds. (Attachment B). At that time the CSU Policy on Financing Activities also was amended to recognize the principles that established the basis for the SRB program, establish criteria for auxiliary organization participation in the program, and provide the Chancellor with additional authority to establish management procedures to administer the program to ensure that the objectives of the SRB would be met. After extensive consultation with campus Presidents and the Chief Financial Officers, the Chancellor issued Executive Order 876, which established more detailed management procedures for the campuses.

Summary

The SRB program has improved the credit of the CSU by the creation of the broad credit pledge, and has provided more efficient and less expensive access to financing for its revenue bond funded construction projects. Significant savings have resulted from the use of the Commercial Paper program as construction loans, from lower costs of issuance because of pooled sales, and from lower costs of credit enhancements and of capital because of the broader credit pledge and stronger credit ratings. The SRB program has clearly achieved the goals of providing a better strategic debt management program for the CSU and has been recognized nationally as a model program.

Committee on Finance
Agenda Item 7-- November 13-14, 2001
Development of an Enhanced Capital Management Program
for the Trustees Revenue Bond Program

Introduction

This item provides information to the Board of Trustees on the planning and development of an Enhanced Capital Management (ECM) program consisting of a new long term debt management plan utilizing the existing Trustee's authority available under the State University Revenue Bond Act of 1947. The new program being explored would pledge all legally available fee revenue as a pool rather than the current process of pledging only specific program or project revenue.

Background

In January 2001 the board reviewed the debt capacity of the CSU and the various programs utilizing a portion of that total debt capacity. That discussion included a commitment to review CSU long-term debt programs to explore ways to reduce financing costs. Staff has undertaken a review and has developed a conceptual plan for a new debt issuance program with the assistance of a task force consisting of investment bankers and consultants with higher education expertise and CSU bond counsel and the CSU's financial advisory firm.

Concepts for a New Revenue Bond Program

To finance non-State projects such as housing, student unions and parking facilities, the board over the years has issued long-term debt pursuant to the State University Revenue Bond Act of 1947. These bonds are administered in separate programs governed by a variety of terms and conditions outlined in several indentures or bond resolutions, some of which date back to the beginning of the CSU system.[*] The primary source of payment of principal and interest on these bonds is revenue from the financed projects, however the Education Code enables the board to levy five different kinds of fees that may be pledged as a backstop for the repayment of revenue bonds. The following table shows the status of debt programs and revenue pledges related to the fees that can be pledged for revenue bonds.

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[*] Bonds issued for the student housing and related projects are governed by the terms of the 1968 Housing Bond Master Indenture, each student union bond issue is governed by individual bond indentures for each project and parking facilities bonds are issued on a project by project basis.

Program and Related Education Code Fees	Bonds Outstanding (as of Nov. 2001, in Millions)[1]	Annual Program Gross 2001 Revenue (Millions)	Form of Pledge	Number of Master Indentures or Bond Resolutions
Student housing	$ 258	$ 90	Systemwide net revenue	1
Student union	$190	55	Campus by campus gross revenue	18
Parking	26	60	Campus by campus net revenue	1
Systemwide health center facility	0	15	Not currently pledged	0
Continuing education	0	136	Not currently pledged	0
Total	$ 474	$ 356		

[1] Does not include approximately $104 million in the commercial paper program for projects in construction.

The current debt programs pledge only $94 million of net (housing and parking) or gross (student union) revenue for the repayment of all existing debt. The task force concluded that if the bond programs were consolidated and all legally available fee revenue were pledged on a gross revenue basis, the resulting pledge of $356 million would significantly improve the credit quality bonds issued by the board would provide several cost advantages. These cost factors and advantages are summarized as follows:

- By converting the various current debt programs to a single large system and creating a gross revenue pledge consisting of a larger pool of funds for debt repayment, bondholders likely will be willing to purchase bonds yielding a lower interest rate since the repayment risk becomes remote with the larger pool of pledged funds.

- In large gross revenue pledge debt programs, variable rate financing, if used modestly, conservatively and with some budgetary controls, can be used to reduce the total cost of financing without significant risk.

- In large gross revenue pledge debt programs, the cost of bond insurance, if needed, is lower than in smaller stand-alone bond programs. This would provide a cost savings over existing programs.

- In large gross revenue pledge debt programs, the need for bond reserves can be reduced or eliminated. Bond reserves (or the cost of surety reserve contracts) are normally funded from bond proceeds. Therefore, the amount of bonds required for a project could be reduced thereby reducing the overall cost of the project.

- A large gross revenue pledge debt program could be implemented with a lower debt coverage requirement and more favorable additional bonds tests. Current coverage requirements range from 1.25 to 1.35 times debt service. A new program could be implemented with a much lower debt service coverage test which will provide more flexibility in the management of bond financing of future projects.

For these reasons, a single large debt program with a gross revenue pledge from multiple revenue sources makes sense from a conceptual perspective. The secret to the success of the new consolidated program, however, will be the adoption of a carefully executed transition plan that recognizes the rights of existing bondholders.

A Planned Approach to Transition

Given the presence of currently outstanding "old" bonds, the new program will be implemented as new "ECM" bonds are issued and as the old bonds are retired or refunded (i.e., refinanced with new bonds). Nevertheless, the new consolidated revenue pledge and the new ECM bond covenants will not be fully implemented until a sufficient number of new bonds are issued to "vote in" the new pledge and covenants. With the majority of the old bonds issued under the 1968 housing bond resolution (the '68 resolution), the transition plan will focus on these existing bond provisions.

Under the '68 resolution, new bond covenants may be implemented when bondholders representing 2/3 of the outstanding bonds agree to adopt the new provisions. Therefore, the new ECM bonds will be issued under the provisions of the '68 resolution with the condition that the new pledge and covenants will automatically take effect when the amount of new ECM bonds reaches 2/3 of all '68 resolution bonds. For the majority (over 60%) of the board's outstanding bonds, this will complete a transition to the new ECM program and allow the CSU to obtain the advantages of the large single gross revenue pledge debt program for all future bond issues. Other old bonds issued for student unions and parking represent a minority of the CSU's bond portfolio and will continue to be governed by old bond covenants until retired or refunded without deterring the CSU from using the advantages of the ECM program for all future borrowings.

As old '68 resolution bonds are retired, the percentage of the bond portfolio represented by new ECM bonds will increase. Additionally, any refunding bonds issued to refinance bonds issued under ECM program will also move the new ECM bonds closer to the 2/3 goal. However, because the CSU has actively managed its bond portfolio and has taken advantage of refunding opportunities in the past, a majority of the existing bonds are not available for refinancing at this time due to limitations imposed by federal tax law. Nevertheless, our financial advisors are continually evaluating refunding opportunities and have identified a segment of bonds that should remain refunding opportunities into the coming months of the next year. If refunded in the spring of 2002 as the ECM program is finalized, they would assist in reaching our conversion goal.

To reach the 2/3 goal staff estimates the board would have to issue approximately $517 million in ECM bonds. At the time of this agenda item, with the projects in the planning stage and those under construction now being funded by the commercial paper program, it is estimated that we could have a need for project funds equal to this amount that could be put into long term bonds as early as September, 2002.

The commercial paper program implemented by the board in January 2001 provides flexibility to achieve cost saving and amass projects for more efficient financings. The program currently is funding 6 projects with potential long-term bond aggregating $123 million. The commercial paper program will continue to be used to assist with achieving the lowest cost of capital and would be used on a strategic basis to help facilitate the implementation of the ECM program. The size of the commercial paper program may have to be increased to help with this implementation plan.

Additional ECM Program Financing Capability

The ECM program is being developed to provide additional financing flexibility that would benefit the CSU. The following program areas could be serviced by the ECM program, provided adequate independent revenue sources were identified and pledged, and any legal and programmatic restrictions were resolved:

- *Continuing Education Facilities:* Projects for this program could go forward with relatively little additional complexity other than the development of administrative systems to account for and control the debt for the additional projects. Prior to recent changes in the Education Code initiated by the chancellor, the board could not pledge these fees for debt payments. With the ECM program, the entire gross revenue from campus continuing education programs along with other program revenues will now be pledged for the repayment of all debt of the board. However, no continuing education revenue would be used for debt payments unless the board approved specific continuing education program projects, or unless other revenue bond campus programs could not generate the revenue needed to pay their debt service. The approval of continuing education revenue bond projects would represent a new use of the Trustee's debt authority.

- *Auxiliary Organization Type Financings:* Currently auxiliary organizations finance many campus projects that are outside the scope of authority of existing bond programs. Typical projects would include bookstore, food service facilities, or childcare centers. These individual stand-alone financings are more expensive than debt issued under the ECM program. A full analysis of requirements and options is underway to establish and make recommendations to the board and the chancellor to establish a policy for projects that might qualify for the ECM program. Since the types of projects that might be proposed under this aspect of the program would not produce revenue from the specific fee categories that are pledgeable according to the Education Code, careful analysis and implementation of guidelines is necessary. It is contemplated that legal analysis of options and proposed policy guidelines would be completed after the ECM program has converted the existing 1968 bonds to parity bonds through the transition process described above.

- *Deferred Maintenance:* If an additional revenue source of CSU funds could be identified, it may be possible to finance deferred maintenance in the system. Were the CSU to obtain authority to deposit student enrollment fees into a CSU trust fund instead of the General Fund of the State of California for example, interest income on the deposits could provide a revenue source for deferred maintenance or other CSU projects. Currently, the CSU does not have the authority to deposit student enrollment fees into a CSU trust fund. Staff at the chancellor's office is continuing to investigate the possibility of obtaining the necessary fee deposit authority.

Future Actions to Implement the Program

With the Board's concurrence, staff will continue to develop and plan for the implementation of the transition to the ECM program. The following specific actions are being proposed:

- Through November and December 2001, initiate and/or continue external discussions with rating agencies, bond insurers; the State Treasurer's Office, the State Controller's Office, and liquidity providers for the commercial paper program; further develop the indenture; refine important program features such as additional bonds test and rate covenant projections; and analyze the internal bond program administrative procedures for need changes.

- Through December 2001 and January 2002, finalize the bond indenture, and draft an initial disclosure document and other bond documents; begin to implement any new administrative procedures needed for the first financing under the ECM program; continue to evaluate refunding opportunities, changes in project schedules as they might impact the program, and the need for an expansion of the commercial paper program; and in January 2002 update the board on the status of implementation plans.

- Through February and March 2002, have final discussions and receive the go-ahead from external agencies; complete new internal administrative bond program procedures and other final plans for the ECM program; update refunding opportunities; finalize bond documents; and in March seek approval from the board to execute appropriate refinancing opportunities as the first ECM transaction.

Committee on Finance
Agenda Item 2—March 12-13, 2002
Approval to Proceed with a New Debt Financing Program for the California State University with Corresponding Revision and Restatement of the California State University Policy on Financing Activities

Summary

This item requests the Board of Trustees to consider and approve a new systemwide revenue bond debt financing program for the California State University, and to approve a revision and restatement of the California State University Policy on Financing Activity originally approved in November, 1998. The new debt-financing program is designed to assist the Board in strategically planning its issuance of debt, while taking advantage of the cost and other benefits of a large pooled debt program. The approval of the new debt-financing program includes a process to convert a large component of existing debt to the new program. The Board has received information on development of the new debt-financing program at the previous November and January meetings.

The Proposed New Systemwide Revenue Bond (ECM) Financing Program

In January 2001, the Board reviewed a debt capacity study of the California State University. That discussion included a commitment by the staff to further review California State University long-term debt programs and explore ways to reduce financing costs and strategically manage the issuance of debt.

Consistent with related presentations in November 2001 and January 2002, staff has completed the groundwork to achieve those objectives. On a per project basis and a system basis, the newly designed multi-source and systemwide revenue pledge program previously referred to as Enhanced Capital Management (ECM) will be able to achieve savings in the following areas:

- Interest rates on bond maturities
- Bond reserve requirements
- Cost of issuing bonds
- Capitalized interest

In addition, the ECM program will have a positive impact on using and extending the bond debt capacity of the California State University. The new ECM program is designed to eventually replace almost the Board's entire current revenue-based project financing programs, with a single debt issuance program authorized pursuant to the State University Revenue Bond Act of 1947. The new program would have a systemwide multi-source revenue pledge creating a larger pool of funds to support the debt thereby achieving a superior quality of credit in the process. Current programs pledge approximately $94 million in project revenues. The ECM program would have the potential to have approximately $356 million of annual revenue pledged to repay the debt if all existing debt were converted to the new program. These revenues would be made up of the following fee categories, consistent with the pertinent sections of the Education Code:

❑ Student (Rental) Housing Fees	(Ed Code Sections 89700(a), 90002, 90012(c), 90074 fees)
❑ Student Union Fees	(Ed Code Section 89304 student body center building and operating fee)
❑ Parking Fees	(Ed Code, Section 89701 fees)
❑ Health Center Facility Fees	(Ed Code, Section 89702 fees)
❑ Continuing Education Fees	(Ed Code, Section 89704 fees)

The program is being structured so that each project will continue to provide the needed revenue to repay its portion of the debt incurred, however, the revenue sources noted above not directly associated with a project would also be pledged for bond repayment to increase the creditworthiness of the ECM program. This would give campuses greater resources to draw upon in any circumstance where one source of debt repayment revenue decreased due to unforeseen conditions.

In addition, the new ECM debt-financing program would have several new bond covenants that are needed to take advantage of more modern financing concepts not currently available in the older bond program resolutions. For example, the ability to issue variable rate debt, a lowering of the coverage requirement, elimination or lowering of the bond reserve requirement, and the flexibility to use surplus funds for other purposes are all desirable characteristics that will reduce debt costs and increase flexibility to assist the campuses in meeting their educational missions.

Additional benefits will accrue to the California State University by having the ability to finance many of what have been auxiliary organization projects through this new debt-financing program. Because auxiliary organization projects are inherently less creditworthy, and because they are included in the debt capacity of the California State University, those financings have slightly eroded the credit of the Trustees. Credit rating agencies have expressed a positive reaction to the program because they feel it will reduce this credit quality erosion and help forestall a credit downgrade. This is an especially important benefit of the program because auxiliary organization projects have proportionally grown at an increasing rate when compared to Trustees' debt. With the new program, this issue can be better managed.

The Transition to the New ECM Program

Given the presence of currently outstanding "old" bonds, the new debt-financing program will be implemented as new ECM system bonds are issued and as the old housing system bonds originally issued under a 1968 master bond resolution are retired or refunded. The new consolidated revenue pledge will take effect with the first issuance of ECM bonds, which is proposed for approval at this meeting. However, the new ECM bond covenants will not be implemented until a sufficient number of new bonds are issued to "vote in" the new covenants and effectively convert the old housing system bonds to the new ECM program. The old resolution already permits varying types of approved trustees' projects to be financed, and therefore the first issuance of the ECM bonds is proposed to contain a number of different project types.

Under the '68 resolution, new bond covenants may be implemented when bondholders representing 2/3 of the outstanding bonds agree to adopt the new provisions. Furthermore, the new ECM bonds will qualify as additional bonds under the '68 resolution, and will require that the new ECM covenants automatically take effect when the amount of new ECM bonds reaches 2/3 of all the bonds outstanding under the '68 resolution.

When the transition is completed, all of the Board's housing system bonds and almost all of the new projects financings authorized in the future will be in the new ECM debt financing system. Other old bonds issued for student unions and parking will represent a minority of the CSU's bond portfolio and will continue to be governed by old bond covenants until retired or refunded. However, these will be pulled into the new system as soon as practicable.

As old '68 resolution bonds are retired, the percentage of the bond portfolio represented by new ECM bonds will increase. Additionally, any refunding bonds issued to refinance bonds issued under ECM program will also move the new ECM bonds closer to the 2/3-approval requirement. However, because the California State University has actively managed its bond portfolio and has taken advantage of refunding opportunities in the past, a majority of the existing bonds are not available for refinancing at this time. Nevertheless, our financial advisors will continually evaluate refunding opportunities.

To reach the 2/3-bond holder approval objective, the Board will have to issue approximately $517 million in ECM bonds. At the time of this agenda item, with the projects in the planning stage and those under construction now being funded by the commercial paper program, it is estimated that we could issue approximately the needed $517 million in long-term bonds as early as October 2002.

The Proposed Revised and Restated California State University Policy on Financing Activities

The first California State University Policy on Financing Activities approved in 1998 was intended to form the nucleus of a financing policy for the Board that would cover all issues for long-term debt programs available to the Board. Therefore, the policy included certain delegations and other related topics for financing the administration of both state funded programs and the Board's non-state funded debt-financing programs. The proposed changes to the state funded sections of the financing policy are primarily ministerial. However, there are significant changes to the non state sections of the policy that are intended to shift the Board's primary financing vehicle from individual revenue-based State University Bond Act and auxiliary financing programs to the proposed State University Bond Act ECM program.

The following are key elements of the revised proposed policy:

- Includes the principles on general debt management concepts reviewed by the Board at the January, 2001 meeting (Section 1).
- Includes important principles of the new ECM debt program that replace sections pertaining to the current programs for debt issued by the Board and auxiliary organizations (Section 2 and 3). These sections would permit the Chancellor to further define policy needed to implement the debt policies of the Board. Most kinds of projects previously financed by auxiliary organizations would be financed directly by the trustees and any exceptions would require initial approval to proceed by the Chancellor with final financing approval by the Trustees.
- Restates and updates delegations for the Public Works Board bonds issued on behalf of the California State University (Section 4).
- Updates ministerial sections on credit of the State of California, the tax laws and the implementation of the policy (Sections 5, 6 and 7).

Recommended Action:

Approval of the following revision to the California State University Policy on Financing Activities that embodies a restructuring of the Board's debt policies consistent with the principles of the newly developed Enhanced Capital Management Program outlined in this agenda item.

California State University Policy for Financing Activities
Board of Trustees' Resolution

WHEREAS, The Board of Trustees of The California State University ("the Board" or "the Trustees") finds it appropriate and necessary to use various debt financing programs afforded to it through the methods statutorily established by the legislature, and to use to its advantage those programs available to it through debt financing by recognized auxiliary organizations of the California State University; and

WHEREAS, The Board wishes to establish and maintain policies that provide a framework for the approval of financing transactions for the various programs that enable appropriate oversight and approval by the Trustees; and

WHEREAS, Within a policy framework the Board desires to establish appropriate delegations that enable the efficient and timely execution of financing transactions for the California State University and its recognized auxiliary organizations in good standing; and

WHEREAS, The Board recognizes that there is a need from time to time to take advantage of rapidly changing market conditions by implementing refinancings that will lower the cost of debt financing for the California State University and its auxiliary organizations and that such refinancings could be better implemented by reducing the time required to authorize such refinancings; and

WHEREAS, The Board finds it appropriate to establish the lowest cost debt financing programs for the California State University, and to use the limited debt capacity of the California State University in the most prudent manner; and

WHEREAS, There are certain aspects of the tax law related to the reimbursement of up-front expenses from tax-exempt financing proceeds that would be more appropriately satisfied through a delegation to the Chancellor without affecting the Trustees' ultimate approval process for such financings; now, therefore be it

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

Section 1. General Financing Policies

1.1 The State University Revenue Bond Act of 1947 (Bond Act) provides the Board of Trustees with the ability to acquire, construct, or refinance projects funded with debt instruments repaid from various revenue sources.

1.2 The long-term debt programs of the Board of Trustees established pursuant to the Bond Act shall be managed by the Chancellor to credit rating standards in the "A" category.

1.3 The intrinsic rating of any debt issued by the Trustees shall be at investment grade or better.

1.4 The Trustees debt programs should include the prudent use of variable rate debt and commercial paper to assist with lowering the overall cost of debt.

1.5 The Trustees programs shall be designed to improve efficiency of access to the capital markets by consolidating revenue bond programs where possible.

1.6 The Chancellor shall develop a program to control, set priorities and plan the issuance of all long-term debt consistent with the five-year non-state capital outlay program.

1.7 The Chancellor shall annually report to the Trustees on the activity related to the issuance of long-term debt.

Section 2. Financing Program Structure of the California State University's Debt Program

2.1 To use the limited debt capacity of California State University in the most cost effective and prudent manner, all on-campus student, faculty and staff rental housing, parking, student union, health center, and continuing education capital projects will be financed by the Trustees using a broad systemwide multi-source revenue pledge under the authority of the Bond Act in conjunction with the respective authority of the Trustees to collect and pledge revenues.

Other revenue-based on-campus and off-campus projects will also be financed through this program and the Bond Act unless there are compelling reasons why a project could not or should not be financed through this program (See Section 3 below).

2.2 The Chancellor shall establish minimum debt service coverage and other requirements for Bond Act financing transactions and/or for the related campus programs, which shall be used for implementation of the Trustees' debt programs. The Chancellor shall also define and describe the respective campus program categories.

2.3 The Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Senior Director of Financing and Treasury, and each of them (collectively, "Authorized Representatives of the Trustees"), are hereby authorized and directed, for and in the name and on behalf of the trustees, to take any and all actions necessary to refinance any existing bonds issued pursuant to the Bond Act of 1947 if the refinancing transaction will result in net present value savings, as determined by an Authorized Representative of the Trustees and which determination shall be final and conclusive. Authorized Representatives of the Trustees are authorized to execute, acknowledge and deliver, and to prepare and review, as each of them deems appropriate, all bond resolutions, bond indentures, official statements and all other documents, certificates, agreements and information necessary to accomplish such refinancing transactions.

Section 3. Other Financing Programs

3.1 The Board recognizes that there may be projects, or components of projects, that a campus wishes to construct whose financing is not possible, or is inappropriate for the Bond Act financing program. A campus president may propose that such a project be financed as an auxiliary organization or third party entity financing if there is reason to believe that the transaction cannot be accommodated through the Bond Act financing program.

3.1.1 Such financings and projects must be presented to the Chancellor for approval early in the project's conceptual stage in order to proceed. The approval shall be obtained prior to any commitments to other entities.

3.1.2 These projects must have an intrinsic investment grade credit rating, and shall be presented to the Trustees to obtain approval before the financing transaction is undertaken by the auxiliary organization or other third party entity.

3.1.3 If a project is approved by the Trustees, the Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Senior Director of Financing and Treasury, and each of them (collectively, "Authorized Representatives of the Trustees") are hereby authorized and directed, for and in the name and on behalf of the Trustees, to execute, acknowledge and deliver, and to prepare and review, as each of them deems appropriate, any and all documents and agreements with such insertions and changes therein as such Authorized Representatives of the Trustees, with the advice of the General Counsel, may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof, in order to assist with the planning, design, acquisition, construction, improvement, financing, and refinancing of the projects.

3.2 The Chancellor may require campus presidents to establish campus procedures applicable to campus auxiliary organizations for the issuance of debt instruments to finance or to refinance personal property with lease purchase, line-of-credit, or other tax-exempt financing methods. The procedures issued by the Chancellor need not contain a requirement for approval of the Trustees or the Chancellor but may include authority for campus presidents to take all actions to assist the auxiliary organization on behalf of the Trustees to complete and qualify such financing transactions as tax-exempt.

Section 4. State Public Works Board Lease Revenue Financing Program

4.1 The authorizations set forth in this section shall be in full force and effect with respect to any State Public Works Board project which has been duly authorized by the Legislature in a budget act or other legislation and duly signed by the Governor and which is then in full force and effect.

4.2 The Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Senior Director of Financing and Treasury, and each of them (collectively, "Authorized Representatives of the Trustees") are hereby authorized and directed, for and in the name and on behalf of the Trustees, to execute, acknowledge and deliver, and to prepare and review, as each of them deems appropriate, any and all construction agreements, equipment agreements, equipment leases, site leases, facility leases and other documents and agreements with such insertions and changes therein as such Authorized Representatives of the Trustees, with the advice of the General Counsel, may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof, in order to provide for the planning, design, acquisition, construction, improvement, financing, and refinancing of the projects.

Section 5. Credit of the State of California

5.1. The delegations conferred by this resolution are limited and do not authorize the Chancellor or other Authorized Representatives of the Trustees to establish any indebtedness of the State of California, the Board of Trustees, any CSU campus, or any officers or employees of any of them. Lending, pledging or otherwise using the credit established by a stream of payments to be paid from funds appropriated from the State of California for the purpose of facilitating a financing transaction associated with a capital project is permitted only if specifically authorized by a bond act or otherwise authorized by the legislature.

Section 6. Tax Law Requirement for Reimbursement of Project Costs

6.1 For those projects which may be financed under the authority of the Trustees, the Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Senior Director of Financing and Treasury, and each of them (collectively, "Authorized Representatives of the Trustees"), are hereby authorized to make declarations on behalf of the Trustees solely for the purposes of establishing compliance with the requirements of Section 1.150-2 of the U.S. Treasury Regulations; provided, however that any such declaration:

6.1.1 Will not bind the Trustees to make any expenditure, incur any indebtedness, or proceed with the project or financing; and

6.1.2 Will establish the intent of the Trustees at the time of the declaration to use proceeds of future indebtedness, if subsequently authorized by the Trustees, to reimburse the Trustees for expenditures as permitted by the U.S. Treasury Regulations.

Section 7. Effective Date and Implementation

7.1 Within the scope of this financing policy, the Chancellor is authorized to further define, clarify and otherwise make and issue additional interpretations and directives as needed to implement the provisions of this policy.

7.2 This resolution supercedes RFIN 11-98-18 and shall take effect immediately. However, the Chancellor shall have the authority to authorize on a individual basis, auxiliary organization projects that are in the planning stage as of the adoption of this policy to proceed under the previous policy in order to prevent situations that would result in additional project costs or additional time-to-completion.

COMMITTEE ON FINANCE

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

Presentation By

Dennis Hordyk
Assistant Vice Chancellor
Financial Services

Summary

This item requests the Board of Trustees to authorize the issuance of Systemwide Revenue Bonds and the issuance of interim financing under the CSU's commercial paper program in an aggregate amount not-to-exceed $207,495,000 to provide funds for two projects. To facilitate maximum flexibility in the commercial paper program, the Board is being asked to approve separate resolutions relating to each project. The long-term bonds for the projects 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 program bonds.

This item also requests the Board to clarify and amend approved resolutions that clearly describe the Board's process in refinancing certain auxiliary organizations' bonds.

The projects are as follows:

1. **San Francisco Stonestown Apartments and Land Acquisition**

In its January 2005 meeting, the Board of Trustees approved a Master Plan Revision for the extension of the northern campus boundary to include the proposed land acquisition associated with this project. The land acquisition is for 24.81 acres with residential zoning compatible with the campus. The project consists of a mix of 697 garden and tower apartment units in fourteen buildings; ten of the buildings have a total of 323 garden apartments and the remaining 374 apartments are in four concrete tower buildings. There are 683 covered parking spaces and 350 surface spaces, for a total of 1,033 parking spaces. The campus received a favorable recommendation from the Housing Proposal Review Committee. In the market demand study that San Francisco State University commissioned from an independent consultant, the demand was supported for the 697 units, primarily from upper division undergraduates, graduate students, faculty and staff.

San Francisco State University conducted a Due Diligence Review and submitted a comprehensive report to the Chancellor's Office on February 17, 2005. The report contains required legal and seismic evaluations and documentation, including an environmental assessment report, improvement assessment report, CEQA report, preliminary title report, current financial analyses, a current property appraisal report, and other related support documentation.

The not-to-exceed par value of the proposed bonds is $146,500,000 and is based on an estimated project cost of $143,348,000, of which $170,000 will be paid from campus housing program reserves, with the remaining balance paid from financing proceeds.

The following table provides information about this financing transaction.

Not-to-exceed amount:	$146,500,000
Amortization:	Graduated payments for 6 years, and approximately level over the remaining 25 years.
Pro-forma maximum annual expected debt service:	$9,476,513
Projected debt service coverage including the new project: [1]	
Gross revenue – all San Francisco pledged revenue programs:	3.46
Net revenue – all San Francisco pledged revenue programs:	1.40
Net revenue – projected for the campus Housing program: [2]	1.32
Net revenue – projected for the Project: [2]	1.21

1. Projected information – Combines unaudited 2003/04 information for the campus-operated pledged revenue programs and the first full year of operation of the new project.
2. The program and project net revenue debt service coverages are for year 2006/07, the first year with a principal payment. See write-up below for impact of level debt service.

The not-to-exceed amount for the project totaling $146,500,000, the maximum annual debt service, and the ratios above are based on the expected contract price for the property, closing costs, expected debt service and capitalized interest at the current interest rate environment plus 50 basis points (computed average coupon rate – 4.93%; February 21, 2005), which provides a modest safeguard to be used if needed for changing financial market conditions that could occur before the permanent financing bonds are sold. It is anticipated that the bonds will be issued in April 2005.

The campus has developed a financial plan supporting the acquisition, projecting net operating revenue at a 95% occupancy rate. Given the size of the overall project, the campus's housing program and the campus net revenue debt service coverage ratios will be impacted by the debt service funding the project. The financial plan includes a graduated debt service plan for the first six years with level debt service for the remaining term of the bonds. The campus's financial plan indicates a 1.21 times project net revenue debt service coverage for the first year that principal is paid (2006/07). The campus's financial plan estimates a 1.11 project net revenue debt service coverage in year seven (2011/12) once the graduated debt service is leveled and given certain growth and vacancy assumptions by the campus. The CSU benchmark for a project is 1.0. The program's net revenue debt service coverage is estimated by the campus at 1.32 for year 2006/07 and 1.24 in 2011/12 when the debt service of the project becomes leveled. The CSU benchmark is 1.10. The campus combined net revenue debt service coverage from all pledged revenue programs is below the 1.35 times debt service system benchmark because of the magnitude of the project. However, even though the campus housing debt service coverage ratio is below the system benchmark, it is recommended that the Trustees approve the project as it helps the campus meet its housing demand and expand its campus boundary by a significant amount. This is an important opportunity for a campus that is land-locked and has one of the highest student enrollments of the CSU.

2. CSU Channel Islands, John Spoor Broome Library (Information Resources Center)

Previously, the Board of Trustees approved schematic plans (July, 2001) for the John Spoor Broome Library (Information Resources Center) project at CSU Channel Islands. The project will be the first of a multi-phase plan to renovate the original hospital "receiving and treatment" building (R&T) for use as the campus library. In this first phase of construction, funds will be used for the renovation of approximately 70,000 gross square feet of space and new construction of 80,000 gross square feet, for a total of 150,000 gross square feet. The project will include space for open stacks, compact shelving, non-book materials, reader stations, technical processing, and public service area. Also included is space for library administration and staff. Book capacity from the first phase is estimated to be approximately 190,000 volumes in open stacks. Construction of the Library is expected to begin in May 2005 and be completed in January 2008.

The not-to-exceed par value of the proposed bonds is $60,995,000 and is based on an estimated total project cost of $56,000,000, of which $5,000,000 will be paid with donated funds and the remaining balance will be paid from financing proceeds.

In addition to the costs associated with the Library, approximately $7,130,000 in related project expenditures, which are currently financed with CSU commercial paper, are expected to be converted into bonds. These related project expenditures were used to: renovate existing campus structures, including space for new administrative offices, which had been located on the planned library site; to augment a new science laboratory building; and to begin design and complete preliminary plans for a science annex project. The California State University, Channel Islands Site Authority (Site Authority), through the issuance of short-term notes, originally financed these expenditures in 2003. These notes were refinanced by Bond Anticipation Notes/commercial paper issued by the CSU in April 2004 following approval by the Board of Trustees in their March 2004 meeting. The Bond Anticipation Notes/commercial paper were approved by the Board of Trustees in a not-to-exceed amount of $11,000,000 with the expectation that the library and the Bond Anticipation Notes/commercial paper would be refinanced with long term debt issued by the Site Authority. However, due to significant cost savings and greater financial flexibility, the decision has been made to use CSU Systemwide Revenue Bonds instead.

The following table provides information about this financing transaction, including both the debt service on the bonds used to finance the library and the debt service associated with the related project expenditures since they will be combined and covered under the same ground and facility lease.

Not-to-exceed amount (Library): Not-to-exceed amount (related project expenditures—previously approved by the Board of Trustees in March, 2004)	$60,995,000 $11,000,000
Amortization:	Ascending over 40 years
Pro-forma maximum annual expected debt service:	$7,145,800
Projected debt service coverage including the new project: [1] Gross revenue – all Channel Islands pledged revenue programs: Net revenue – all Channel Islands pledged revenue programs: Net revenue – projected for the Project:	 1.42 1.04 1.00

1. Projected information – Combines unaudited 2003/04 information for the campus-operated pledged revenue programs and the first year of operation of the project (the Library and related project expenditures) with expected full debt service. The coverages do not include the revenues and debt service associated with the CSUCI Site Authority's senior housing development activities.

The not-to-exceed amount for the library totaling $60,995,000, the maximum annual debt service, and the ratios above are based on the construction project bid amount, expected debt service and capitalized interest at the current interest rate environment plus 50 basis points (computed average coupon rate – 4.98%; February 18, 2005), which provides a modest safeguard to be used if needed for changing financial market conditions that could occur before the permanent financing bonds are sold. It is anticipated that the bonds will be issued in April 2005.

Debt service on the bonds will be met with payments under a ground and facility lease with the Site Authority. The Site Authority was created in 1998 to facilitate and provide for the financing and development of the campus, including the financing and development of faculty and staff housing. Upon completion of the library, the CSU and Site Authority will enter into a ground and facility lease, whereby the Site Authority will lease the library from the CSU. In return, the Site Authority will make lease payments to the CSU, who will use the payments to make debt service payments on the bonds. The Site Authority's obligation to make payments under the lease will be subordinate to the pledge of revenues associated with the financing of the Site Authority's housing development activities on the California State University Channel Islands East Campus. The California State University Channel Islands campus, through an operating agreement with the Site Authority, will operate the library.

Because the Site Authority's housing development activities on the California State University Channel Islands East Campus are still under way, the revenues from these activities are still maturing. Continued growth on a long-term basis will be necessary for project revenues to meet debt service requirements. Under the base case projection, the revenues are sufficient to amortize the debt over 30 years with a level debt service structure. However, under a more conservative growth projection, a longer period could be needed to amortize the debt. In order to better match debt service on the bonds with expected revenue growth from the Site Authority's activities, the financial plan allows for an ascending debt service plan through the first thirty years, but provides the CSU with the flexibility to ultimately amortize the debt over a longer period if needed. In the event project revenues are realized consistent with the base case projection, the CSU would have the flexibility to amortize the debt with a more level debt service structure.

Payments under the ground and facility lease will be structured to match the required debt service on the bonds, resulting in project debt service coverage of 1.00. After meeting the senior obligations associated with the financing of the Site Authority's housing development activities on the California State University Channel Islands East Campus, the Site Authority is expected to have available accumulated surplus revenues that can be drawn down to help pay debt service on the bonds, resulting in an effective project debt service coverage of at least 1.20 times debt service. Use of the accumulated surplus revenues is necessary in the early years because, for a period of time, projected annual revenues are less than annual debt service.

Including the project revenues and debt service, the campus combined net revenue debt service coverage from all pledged revenue programs is below the 1.35 times debt service system benchmark because of the magnitude of the project. However, even though the campus debt service coverage ratio is below the system benchmark, it is recommended that the Trustees approve the project as it helps the campus meets its overall development objectives.

3. Clarification of Existing Resolutions

Previously, the Board approved three separate auxiliary organization refinancings for Los Angeles, at your November 2004 meeting, and San Marcos and Fresno, at your January 2005 meeting. The purpose of this clarification and amendment is to clearly describe the structure of the refinancings. First, the Board will acquire the financed facilities from the auxiliaries. Second, the auxiliaries will use the purchase price to refund their existing bonds. Finally, the Board will lease the ground and facility to each auxiliary and receive lease payments, which will be used to pay the debt service on the Board's bonds. Although the IRS Code views this transaction as a refinancing, for purposes of state law, the transaction is structured as an acquisition by the Board. It is this distinction that is being clarified.

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 each project described in this agenda item that authorize interim and permanent financing for the projects. The proposed set of 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 $207,495,000 and certain actions relating thereto.
2. Provide a delegation to the Chancellor, the Executive Vice Chancellor and Chief Financial Officer, 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.
3. Restate and clarify the resolutions regarding auxiliary refinancings that are identified in this agenda item.

Approval, individually or in total, of separate sets of the financing resolutions for the following projects as described in this agenda item is recommended for:

1. **San Francisco Stonestown Apartment Land Acquisition.**

2. **CSU Channel Islands, John Spoor Broome Library (Information Resources Center)**

3. **Approval of the clarification and amendment of the November 2004 and January 2005 financing resolutions regarding auxiliary organization refinancings.**

COMMITTEE ON FINANCE

Auxiliary Organization Taxable Financing California Polytechnic State University, San Luis Obispo

Presentation By

Dennis Hordyk
Assistant Vice Chancellor
Financial Services

Warren Baker
President
California Polytechnic State University, San Luis Obispo

Summary

The Cal Poly Housing Corporation (Corporation), a recognized auxiliary organization in good standing, is proposing a taxable (commercial) borrowing not to exceed $24 million to finance the construction of sixty-nine attached for-sale units to support the retention and recruitment of University faculty and staff. The Corporation will construct the units on campus land leased to the Corporation. The Trustees approved the schematic plans for the project in March 2002 and certified the final Environmental Impact Report and supplement to the Final Environmental Impact Report in March 2002 and November 2003, respectively.

The taxable financing will not create any legal or direct obligation of the State of California or the Trustees and will be secured by the Corporation's leasehold interest in the property until the units are sold.

Project Description

The Cal Poly Housing Corporation was established to develop and operate housing for faculty and staff in support of the University's mission. The limited housing supply and overwhelming demand in San Luis Obispo County have created a critical need for employee housing. San Luis Obispo County is a limited growth county, constrained by physical land features and availability of infrastructure (water and sewer). The median home price in San Luis Obispo County was $475,610 in December 2004, up 15% from December 2003. The median home price in the city of San Luis Obispo for 2004 was over $500,000. These factors have made the recruitment and retention of faculty and staff difficult, particularly at a time when the University will recruit a significant number of replacement personnel over the next twenty years.

The Corporation's Bella Montaña project will provide 69 attached units, primarily town homes, in 21 buildings on a 5.58-acre site west of Highway 1 at Highland Drive. The site design includes uphill fourplexes, downhill triplexes, and flat triplexes that utilize the site's change in elevation to maximize unit views. The unit mix includes 42 three-bedroom and 27 two-bedroom units ranging in size from 1,072 to 1,626 square feet, excluding garages. Site infrastructure improvements are included in the costs of the homes. BDC Development will construct the project under a guaranteed maximum price contract with the Corporation.

The University will enter into a long-term ground lease with the Corporation for development of the site and management of the employee-housing program. The Corporation plans to enter into long-term ground leases with the homebuyers that enable the Corporation to enforce eligibility criteria and resale restrictions. Prices for the homes are anticipated to be 80 to 85% of current local market rates.

Auxiliary Organization Financing

The Corporation has negotiated a conventional construction loan with a large regional bank in an amount not to exceed $24 million. The construction loan will be secured by the Corporation's leasehold interest in the property and will be paid off from the sales of the units. The construction loan may be extended to 36 months to allow for any unsold units.

The following summarizes key information regarding the proposed construction financing.

Taxable Amount not-to-exceed:	$ 24,000,000
Term:	36 months
Estimated rate:	Prime minus 50 basis points

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 proposed auxiliary organization financing in an amount not to exceed $24,000,000 as described and for the purpose indicated in this agenda item.
>
> 2. Confirm that the Chancellor, the Executive Vice Chancellor Business and Finance, the Assistant Vice Chancellor, Financial Services, and the Senior Director, Financing and Treasury, are authorized to take any and all actions on behalf of the Board of Trustees and to execute any documents that in their judgment are necessary to assist the auxiliary organization to complete the financing described in this agenda item.