AGENDA

COMMITTEE ON FINANCE

Meeting: **1:30 p.m., Tuesday, March 19, 2013**
Glenn S. Dumke Auditorium

William Hauck, Chair
Roberta Achtenberg, Vice Chair
Rebecca D. Eisen
Douglas Faigin
Kenneth Fong
Margaret Fortune
Steven M. Glazer
Henry Mendoza
Lou Monville
Ian Ruddell
Glen O. Toney

Consent Items

Approval of Minutes of Meeting of January 22, 2013

Discussion Items

1. Report on the 2013-2014 Support Budget, *Information*
2. List of Factors for Future Considerations of Fee Changes per AB 970, *Action*
3. California State University Annual Debt Report, *Information*
4. Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for a Student Housing Project at California State University Northridge, *Action*

MINUTES OF THE MEETING OF
COMMITTEE ON FINANCE

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

January 22, 2013

Members Present

Roberta Achtenberg, Vice Chair
Edmund G. Brown, Jr., Governor
Rebecca D. Eisen
Kenneth Fong
Margaret Fortune
Steven M. Glazer
Henry Mendoza
Lou Monville
Gavin Newsom, Lt. Governor
Jillian Ruddell
Timothy P. White, Chancellor

Approval of Minutes

The minutes of November 14, 2012 were approved by consent as submitted.

Public Speakers

The committee heard from the following individuals: Pat Gantt, president, CSUEU, commented on the structure of the CSU budget and that the benefits of Proposition 30 will eventually expire. Every action by the legislature and the governor has benefits and consequences and encouraged the board to think diligently about the future and to look for long-term funding solutions; Carol Shubin, professor of mathematics, California State University, Northridge, commented on the mission of the CSU and how everyone has a part in supporting that mission.

Report on the Support Budget, 2012-2013 and 2013-2014 Fiscal Years

Dr. Benjamin F. Quillian, Executive Vice Chancellor and Chief Financial Officer, reported that the governor had issued the state's 2013-2014 budget proposal, which would increase funding for education. The CSU is already engaged in making changes and creating efficiencies called for in the governor's proposal. Additionally, the proposal devotes $10 million for technology to increase the number of courses available on-line.

Dr. Quillian reminded the Board that the passing of Proposition 30 resulted in no additional reductions in the CSU budget, however, it did not restore any of the $750 million reduction in state allocation to the CSU for 2012-2013.

Dr. F. King Alexander, president of California State University, Long Beach, presented nationwide comparisons showing the CSU as one of the most efficient university systems with some of the lowest tuition fees. It also showed that the amount the CSU spends per student falls well below the national average. The CSU serves some of the neediest and lowest income students, yet is among the nation's best in keeping students out of debt.

Mr. Edmund G. Brown, Jr., governor of California, commented that his 2013-2014 budget proposal will help fund school districts with a higher number of lower-income children.

Mr. Robert Turnage, assistant vice chancellor for budget, reported that in 2013-2014, the state will provide $125 million of replacement revenue for the $132 million loss of fee revenue due to the roll-back of tuition fee rates to 2011-2012 levels with the passing of Proposition 30. A significant change in the governor's 2013-2014 proposal is the CSU managing the debt service on lease revenue bonds and general obligation bonds.

Trustee Glazer inquired about the potential amount by which CSU could reduce spending if it were to negotiate an employer-employee cost-share of health benefit premiums equivalent to the current cost-share for the state government. Mr. Turnage stated that lowering the CSU's employer contribution to the same rate that the state contributes would reduce CSU annual spending by approximately $70 million. This potential amount, however, would be subject to the collective bargaining process.

Trustee Cheyne noted that state workers may pay a larger percentage of their health benefits but they also receive pay increases on a yearly basis, versus CSU employees who have not had a raise in a long time. Trustee Achtenberg concurred.

Trustee Fortune asked what revenue sources are attached to the increased funding. Mr. Turnage replied that the revenue is from the state general fund as the governor indicated in his budget plan.

Dr. Timothy P. White, chancellor of California State University, stated that the CSU will be collecting input from its constituents and will present a "working plan" on the CSU support budget at the next board meeting.

Trustee Achtenberg adjourned the Committee on Finance.

COMMITTEE ON FINANCE

Report on the 2013-2014 Support Budget

Presentation By

Benjamin F. Quillian
Executive Vice Chancellor and
Chief Financial Officer

Robert Turnage
Assistant Vice Chancellor
Budget

Background

At the November 13-14, 2012 meeting of the Board of Trustees, the board approved the 2013-14 support budget request. That budget request called for an increase of $441.8 million, including $371.9 million from state funds and $69.9 million of net student fee revenues tied to enrollment growth. The approved uses of the increase are as follows.

- $48.2 million for mandatory cost increases (health benefits, new space, and energy)
- $58.0 million for Graduation Initiative and Student Success
- $86.3 million for a 3 percent compensation increase pool
- $155.8 million for 5 percent enrollment growth
- $50.0 million for urgent maintenance needs
- $20.0 million for information technology infrastructure upgrade and renewal
- $23.0 million for instructional equipment replacement
- $0.5 million for Center for California Studies

As discussed at the January Board of Trustees meeting, Governor Brown issued his 2013-14 budget proposal in January. In addition to the combination of adjustments and expectations explained at the last board meeting, the Governor's proposal provides an additional $125.1 million in State support, $10 million of which is to be used to increase the number of courses available to matriculated undergraduates through the use of technology. This agenda item presents a reduced expenditure plan to align budgeted spending with the Governor's proposal.

Proposed Expenditure Plan

Using Technology to Address Curricular "Bottlenecks" $10 million

The CSU has identified a number of courses that create bottlenecks for students, ultimately slowing down their time to degree. This funding will address the various types of bottlenecks experienced across the CSU and will use technology to:

- Re-design courses with high failure rates, thus reducing the seats needed for students repeating the course and allow students a faster path toward graduation;
- Scale-up best practices around the system in the use of hybrid teaching (combining elements of online and in-person instruction), web-based "virtual laboratories", open source and electronic textbook use, and online teaching; and
- Upgrade student systems to provide support through electronic advising, optimized scheduling, and clearer degree pathways for all students.

Campuses will respond to a Request for Proposals (RFP) detailing their plan for addressing bottlenecks and improving academic student services.

Mandatory Costs $48.2 million

It will be necessary to use a portion of the augmentation to meet anticipated mandatory costs. Mandatory costs are the expenditures the university must pay regardless of the level appropriated by the state. These costs include the most recent increases for employee health benefits, operation and maintenance of newly constructed space, and energy. Without funding for the mandatory cost increases, campuses would have to redirect resources from other program areas to meet the obligations. Funding mandatory costs preserves the integrity of the CSU programs.

Employee Compensation Pool $38.0 million

At this juncture, there are critical salary-related concerns across CSU employee groups that require attention by the CSU leadership and in the collective bargaining process. Reduced levels of funding from the State over recent years and the necessary priority given to preserving the quality of academic programs, student services, and public safety have prevented the CSU from providing general compensation increases since June 30, 2008 for faculty and since 2007 for all other CSU employees. In fiscal year 2009-10 furloughs were imposed, and CSU employees experienced a 9 percent salary reduction. The proposed pool will provide resources to begin addressing the pressing need to compensate employees fairly for the work they perform and enhance the CSU's ability to recruit and retain top quality faculty and staff. $38 million amounts to approximately a 1.2 percent increase in the total CSU compensation to employees. However, the distribution of the pool to various groups will depend on market factors, the collective bargaining process, and other factors. It is not anticipated that all employee categories will receive raises or receive the same amounts.

Enrollment Growth $21.7 million

Many CSU campuses are experiencing record levels of applications for Fall 2013. In spite of this, state budget cuts in recent years have constrained the ability of the CSU to admit eligible applicants. For example, in Fall 2011, the CSU had to turn away almost 22,000 CSU-eligible high school seniors and community college transfers. In addition, state budget cuts forced the CSU to close the Spring 2013 application cycle (with some narrow exceptions at ten campuses). As a partial consequence, community college transfer applications for Fall 2013 are up by 15.5 percent over the prior fall. A total of 314,100 individuals have applied to CSU campuses for Fall 2013, an increase of over 22,600, or 7.8 percent.

Restoring access to baccalaureate and master's instruction at the CSU is a vital and urgently needed investment for the sake of students themselves and for the sake of California's economic recovery and workforce development. The board's approval last November of a 5 percent increase in state-assisted enrollment was easily justified on the basis of burgeoning demands. This revised request attempts to achieve a balance between various critical program needs and a constrained proposed budget augmentation from the state.

The revised budget plan of $21.7 million of new state funding will allow growth in state-assisted enrollment in the CSU system by 1.45 percent. This will allow the enrollment of about 5,700 more individual students than would otherwise be possible. The distribution of state funds to the campuses is based on consultation with the campus presidents and includes particular attention to the need to increase enrollments of the smaller campuses with capacity to grow and facilities sufficient to accommodate the growth. Consideration was also given to campuses located in areas of particularly high application demand.

Student Access and Success Initiatives $7.2 million

This funding will be used to address key factors that impact student access and success such as reducing time to degree, closing the achievement gap and improving graduation rates. Systemwide objectives will guide campus proposals to scale up existing best practices or implement new and innovative strategies to enhance academic advising; improve student services focused on retention and shortened time to degree; and close the achievement gap through targeted academic and student support, specifically to underserved and under-prepared first time freshman.

Summary

After consulting with the campus presidents, as well as the Systemwide Budget Advisory Committee, regarding the most pressing needs, the above recommendations are presented for the consideration and input of the Board. Executive Vice Chancellor and Chief Academic Officer Ephraim Smith and Executive Vice Chancellor and Chief Financial Officer Benjamin Quillian are seeking alternative ways to address needed information technology upgrades and renewals, as well as critical maintenance of facilities and the replacement of instructional equipment. This will involve a review of undesignated cash balances and the results of increased operational efficiencies. However, it is unlikely resources will be available to fully fund all of those areas approved for funding by the Board.

COMMITTEE ON FINANCE

List of Factors for Future Considerations of Fee Changes per AB 970

Presentation By

Robert Turnage
Assistant Vice Chancellor
Budget

Background

Assembly Bill (AB) 970 was signed into law by Governor Brown last September and took effect January 1, 2013. The legislation established a set of procedures and limitations with regard to the consideration and timing of increases in "mandatory systemwide fees" by the CSU and the University of California. At this time the CSU is not considering an increase in tuition fees or any other mandatory systemwide fees. This agenda item addresses a specific provision of AB 970 that requires the respective university boards, on or before April 2, 2013, to adopt "…a list of factors that shall be taken into consideration when developing recommendations to adjust mandatory systemwide fees." The legislation specifies that the factors include, at a minimum, levels of state support for the CSU, total cost of attendance for students, impacts on various categories of students—including historically underrepresented students and low- to middle-income students—as well as efforts to mitigate impacts.

Recommendation

The following resolution adopting a list of factors, as required by AB 970, is recommended for adoption by the Board of Trustees. The recommended list of factors was developed by staff in consultation with representatives of the California State Student Association, as required by AB 970.

> **RESOLVED,** by the Board of Trustees of the California State University, the adoption of the following:
>
> **List of Factors in Considering Adjustments to CSU Mandatory Systemwide Fees**
>
> - The legislature in 2010 reaffirmed "access, affordability and high quality" as "…the essential tenets of the master plan…" [Education Code Section 66002 (d)] Adjustments to mandatory systemwide fees at the CSU should always be considered with these three master plan goals in mind.

- The state has a historic commitment to fund the master plan. State law affirms this commitment specifically with regard "…to provide an appropriate place in California public higher education for every student who is willing and able to benefit from attendance." [Education Code Section 66201] State law affirms this commitment specifically with regard to providing "…adequate resources to support enrollment growth…" and that the annual state budget act contain appropriations necessary to accommodate all California residents who are continuing undergraduate students or eligible for admission as freshmen or sophomores or transfers from community colleges. [Education Code Section 66202.5] Adjustments to mandatory systemwide fees should be based on consideration of the extent to which the state is meeting the above commitments.

- Consideration shall be given to whether a fee adjustment is necessary, in combination with existing levels of state support, to assure adequate resources to admit all California resident CSU-eligible undergraduate applicants, and to provide all students with necessary courses, high-quality programs and support services that lead to improved student success and timely graduation.

- Adjustments to mandatory systemwide fees shall take into consideration the level of state support the university receives, total costs of student attendance, potential impacts on underrepresented and low to middle-income students, as well as efforts to mitigate impacts. [Education Code Section 66028.4 (a)]

- Consideration shall be given to the percentage of CSU baccalaureate recipients who graduate with education loan debt, the average amount of that loan debt, and how these measures compare with state and national averages. Consideration also shall be given to the availability of financial aid, including work-study, tax credits and institutional financial aid. [Education Code Section 66028.2 (a)]

- Consideration shall be given to the extent to which fee rates and institutional financial aid practices are maximizing the availability of federal financial aid, including tax credits, for CSU students and families.

- Consideration shall be given to comparisons of fee rates, as well as net costs of attendance, with other public higher education institutions in the state and the nation.

- Consideration shall be given as to whether adjustments to the fee structure would promote improvements in access to necessary courses, successful course completion, improved time to degree and graduation rates.

- Consideration shall be given as to whether the fee structure maintains adequate differentials between undergraduate and graduate/postbaccalaureate fees, in recognition of longstanding Board of Trustees policy, state priorities for access to baccalaureate education, typically higher costs of graduate/postbaccalaureate programs and typically higher benefits accruing to master's and doctoral degree recipients.

- If the state provides stable and predictable increases in funding, consideration shall be given to fee increases that are moderate, gradual, predictable and with ample notice to students.

- The Board of Trustees shall consider adjustments to mandatory systemwide fees and amendments to principles governing consideration of these fees only after appropriate consultation with the designated student association has taken place, as required by state statute and CSU fee policy. [Education Code Sections 66028.3 and 66028.4 (b)]

COMMITTEE ON FINANCE

California State University Annual Debt Report

Presentation By

George V. Ashkar
Assistant Vice Chancellor
Financial Services

Summary

This agenda item reports on the debt of the California State University Systemwide Revenue Bond (SRB) program, issued in accordance with the CSU Policy on Financing Activities.

Background

The Systemwide Revenue Bond (SRB) program, under the provisions and authorities of The State University Bond Act of 1947 (Education Code Sections 90010-90081), was established by the board at its March 2002 meeting. At the same meeting, the board also amended the CSU Policy on Financing Activities to recognize the principles that established the basis for the SRB program, established aspects of how auxiliary organization financings would occur in the future as part of the program, and provided the Chancellor with additional authority to establish management procedures to administer the program to ensure that the objectives of the SRB program would be met. In July 2003, following extensive consultation with campus Presidents and Chief Financial Officers, the Chancellor issued Executive Order 876 to establish more detailed management procedures to campuses. In October 2006, the chancellor issued Executive Order 994, which refined and superseded Executive Order 876. Executive Order 994, which incorporates the CSU Policy on Financing Activities RFIN 03-02-02, is included herein as Attachment A.

The SRB program provides capital financing for revenue-generating projects of the CSU—student housing, parking facilities, student union facilities, health center facilities, continuing education facilities, and certain auxiliary projects. Revenues from these projects are used to meet operational requirements for the projects and are used to pay debt service on the bonds issued to finance the projects. The strength of the SRB program is its consolidated pledge of gross revenues to the bondholders, which has improved credit ratings and reduced the CSU’s cost of capital.

SRB Portfolio Profile

As of June 30, 2012 and December 31, 2012, the outstanding SRB debt of the CSU was approximately $3,543,000,000 and approximately $3,605,000,000, respectively.

Other key characteristics of the SRB portfolio are as follows:

Debt Ratings:	Aa2 (Moody's) A+ with a Positive Outlook (Standard & Poor's)
Weighted Average Cost of Capital:	4.55%
Weighted Average Maturity:	15.0 Years
Interest Rate Mix:	100% Fixed Rate

SRB Operating Performance and Debt Service Coverage Ratios

For the fiscal years ended June 30, 2010, June 30, 2011, and June 30, 2012, operating performance and debt service coverage ratios for the SRB program were as follows (amounts in millions)

	June 30, 2010	June 30, 2011	June 30, 2012
Operating Revenues	$1,184	$1,313	$1,375
Operating Expenses	863	918	999
Net Revenues	321	395	376
Annual Debt Service	181	205	226
Debt Service Coverage[1]	**1.77**	**1.93**	**1.66**

(1) The minimum benchmark for the system, as established by Executive Order 994, is 1.45.

2012A and 2012B SRB Issuance

In August 2012, the CSU issued $452,920,000 of Systemwide Revenue Bonds. Of this amount, $122,350,000 was issued for new money projects, including approximately $20 million to pay off commercial paper. At the time of the sale, the most widely used tax-exempt interest rate index was near an all-time low, resulting in an all-in true interest cost for the new money component of the bond issuance of 3.69%. The CSU also took advantage of the low interest rate environment and issued $330,570,000 in bonds to refund existing SRB and auxiliary debt, producing net present value savings of $52.7 million, or 14.9% of the refunded bonds. The refunding of debt will benefit seventeen campuses and will save SRB programs across the system approximately $3.0 million in combined cash flow per year.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

October 23, 2006

MEMORANDUM

TO: CSU Presidents

FROM: Charles B. Reed Charles B. Reed
Chancellor

SUBJECT: Financing and Debt Management Policy — Project Development and the Systemwide Revenue Bond Program Executive Order No 994

Attached is a copy of Executive Order No 994 relating to the CSU's Financing and Debt Management Policy.

In accordance with policy of the California State University, the campus president has the responsibility for implementing executive orders where applicable and for maintaining the campus repository and index for all executive orders.

If you have questions regarding this executive order, please contact Colleen Nickles, Senior Director, Financing & Treasury, at (562) 951-4570 or cnickles@calstate.edu.

CBR/rr

Attachment

cc: Vice Presidents for Business/Administration
Executive Staff, Office of the Chancellor

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THE CALIFORNIA STATE UNIVERSITY
Office of the Chancellor
401 Golden Shore
Long Beach, California 90802-4210
(562) 951-4570

Executive Order:	994
Effective Date:	October 23, 2006
Supersedes:	Executive Order No. 876
Title:	Financing and Debt Management Policy — Project Development and the Systemwide Revenue Bond Program

Section 1: General Policies Regarding Financing Activities of the CSU

1.1 Authority: This policy statement provides information and procedures in connection with financing activities of campuses and auxiliary organizations. It is issued pursuant to Standing Orders of the Board of Trustees, Section 2, and the authority delegated to the Chancellor in the Trustees CSU Policy for Financing Activities, (RFIN 03-02-02; see Attachment B).

1.2 General Rule: Use of the capital markets to finance revenue-based, and in some limited cases, non-revenue-based non-state funded capital outlay projects of CSU campuses, auxiliaries, and other affiliated organizations shall be limited to the use of the Chancellor's Office tax-exempt or taxable commercial paper programs and the issuance of notes, bonds and other instruments, as approved by the Trustees, within the CSU Systemwide Revenue Bond Program as described below, hereafter referred to as the SRB Program. Additionally, the tax-exempt or taxable commercial paper program may also be used for the purpose of financing Chancellor's Office, campus, auxiliaries, and other affiliated organizations' personal property needs. The aspects of the Systemwide Revenue Bond Program and this policy are based on the fact that debt management is a dynamic undertaking, that evaluation of debt capacity and credit quality involves many different measures, and that the choice to use the specific criteria and measures in this policy may require change over time.

1.3 Types of Debt: The Trustees have traditionally issued variable-rate, short-term commercial paper for the construction period of a project, and fixed-rate, long-term debt for the permanent financing of a project. With the introduction of the commercial paper program use for personal property financing, the Trustees may not refinance these commercial paper issuances with long-term, fixed-rate debt, and the financed amounts will be amortized while the issuance remains in commercial paper.

Given this change in approach, the Trustees will establish a parameter that not more than 25% of its debt be unhedged variable rate debt, including commercial paper, to be consistent with rating agency expectations and market targets appropriate for the CSU's debt rating.

1.4 Alternative Financing Activities: An alternative financing structure to Section 1.2 above may be utilized if the Chancellor's Office or the campus is able to demonstrate significant benefits and if the Trustees approve the alternative structure. The Chancellor's Office or campus must not only demonstrate benefits for the use of an alternative structure, but must also identify the detailed structure of the proposed financing. In reviewing the proposed structure, the Trustees shall evaluate such things as 1) impacts on the CSU's financial statements, 2) the extent to which the financing will be counted as a use of the Trustees' credit, 3) the relative cost of the proposed financing, 4) the proposed use of financing techniques that involve greater repayment risk than are typically used in the SRB Program, and 5) any other short-term or long-term impacts to the Trustees' credit profile.

Section 2: Definitions

2.1 "Project": Construction of a facility or group of facilities related to the same use and constructed at the same approximate time (example; one or more dormitories constructed with one construction contract). Project may also be defined as personal property with a dollar value greater than $100,000.

2.2 "Stand-Alone Project": For a campus, a Stand-alone Project is a campus self-supporting activity supported by an Established CSU Fee that provides the source for repayment of debt for only one campus-related Project (e.g. the first campus-operated student housing facility). For an auxiliary organization a Stand-alone Project is a single Project operated by the auxiliary that is supported by the project-related revenue, or all of the auxiliary organization's available revenue (e.g. the first auxiliary-operated bookstore facility).

2.3 "Debt Program": For a campus, a Debt Program is a campus self-supporting activity funded by an Established CSU Fee that provides the source for repayment of debt for more than one campus-related Project (e.g. two or more separately financed campus-operated student housing facilities). For an auxiliary organization, a Debt Program is a program operated by the auxiliary that provides the source for repayment of debt for more than one auxiliary-operated Project (e.g. two separately financed auxiliary-operated food service facilities). Note that a general revenue pledge of all available auxiliary organization revenue makes it possible for the entire auxiliary organization program to be classified as a single Debt Program.

2.4 "Established CSU Fees": The following fee categories established in the Education Code have been pledged to the repayment of bonds issued by the SRB Program:

- Parking Fees (Education Code Section 89701)
- Student Body Center Fees (i.e., Student Union Fees) (Education Code Section 89304)
- Rental Housing Fees (Education Code Section 89703)
- Health Center Facility Fees (Education Code Section 89702)
- Continuing Education Revenue Fund Fees (Education Code Section 89704)

2.5 "Net Revenue Debt Service Coverage Ratios" (DSCR): A DSCR consists of annual gross revenue, less annual operating expenses divided by annual debt service. This ratio serves as a benchmark at the systemwide and campus level for decisions about new debt and the management of debt (See Section 4).

2.6 "Operating Expenses": For a Project or Program, Operating Expenses are defined as all costs related to providing a good or service, including regular maintenance charges, expenses of reasonable upkeep, a properly allocated share of charges for insurance, direct or special administrative expenses directly chargeable to the Project or Program, and all other expenses incident to the operation of the Project or Program, but excluding depreciation expense and other non-cash charges, general administrative expenses of the Board or the State, Extraordinary Expenses and Major Maintenance and Repairs, and Debt Service.

2.7 "Extraordinary Expenses and Major Maintenance and Repairs": For a Project or Program, Extraordinary Expenses and Major Maintenance and Repairs will not be included in the DSCR, and the expenses are expected to be paid from Building Maintenance and Equipment Reserves or from Prior Year Fund Balances.

Note: Operating Expenses, as defined in the SRB indenture, include extraordinary repairs in the calculation of debt service coverage; the indenture requires the Board to set rates, charges, and fees for all Projects so that Net Income Available for Debt Service is at least equal to Aggregate Debt Service for all indebtedness. Sections 2.5, 2.6, and 2.7 are intended for internal operations purposes and shall not result in a conflict with indenture requirements. Campuses are expected to monitor their Programs to ensure overall compliance with the indenture requirements for annual DSCR tests.

Section 3: Systemwide Revenue Bond Program (SRB)

3.1 Trustee Approval: Each issuance of debt instruments under the SRB Program shall be approved by the Trustees.

3.2 Gross Revenue Pledge: Bonds issued under the SRB Program are secured by a gross revenue pledge of all Established CSU Fees.

3.2.1 Lawfully available revenue may be pledged from a campus, auxiliary, or other organization through a formal binding agreement if approved by the Trustees.

3.3 Commercial Paper Program: Within the capacity of the CSU Chancellor's Office commercial paper program, each non-state funded capital outlay or personal property project may receive acquisition or construction funding through the issuance of commercial paper.

3.4 Auxiliary Organization Projects: Except as indicated in Section 1.~~3~~4, Projects of auxiliary or other organizations (special purpose governmental units, such as a joint powers authority) shall be financed through the SRB Program.

3.4.1 Each auxiliary or other organization SRB project financing shall be supported by the execution of a financing lease between the auxiliary organization and the CSU with a legal structure that is permitted by the provisions of the State University Bond Act and the SRB Master Resolution.

3.4.1.1 For auxiliary or other organizations with no existing debt obligations, the lease shall contain provisions that 1) pledge all available corporation revenue to the Trustees for payment of the lease obligations; 2) require deposit of all pledged revenues (i.e., all revenues) into a pledged "gross revenue fund" bank account; 3) establish criteria for issuance of additional bonds; and 4) covenant that the auxiliary or other organization will set rates or otherwise maintain pledged income that will generate the required net revenue (See Section 4.4).

3.4.1.2 For auxiliary or other organizations with existing debt obligations, the lease shall contain provisions that 1) require the corporation to abide by the criteria of existing bonds for the issuance of "parity" debt; 2) establish that Trustees share in pledged revenue with all other bondholders on a parity basis; and 3) require that Trustees receive the same covenants as existing bondholders for the issuance of additional bonds and the same coverage required for a rate covenant for the existing bonds.

3.4.1.3 The financing lease shall be considered parity debt with all other, existing auxiliary or other organization debt.

3.4.1.4 The financing lease payment from the auxiliary or other organization to the CSU shall be calculated to include: 1) debt service associated with the bonds including the cost of participation in the commercial paper program, interest and principal on bonds issued to permanently finance the project and other debt management related costs of the CSU; and 2) any costs incurred by the auxiliary organization's campus for operation and maintenance for the financed facility. (See Executive Order No. 753)

3.4.2 At each campus the aggregate annual direct and indirect debt service for other third-party financings and for auxiliary or other financings that are either part of or separate from the SRB Program is limited to a maximum amount of 25% of the respective allocation of debt capacity to the respective campus (See Section 5).

3.5 Structure and Timing of Bond Transactions: The structure and timing of each issuance of SRB bonds shall be determined by the Chancellor's Office.

3.6 Allocation of Costs: Debt service and other debt management costs shall be allocated to campuses on the basis of a formula determined by the Chancellor's Office.

Section 4: DSCR Benchmarks

4.1 Systemwide (DSCR): For the system, the DSCR is computed using the total of the gross revenue of the Established CSU Fee plus any pledged revenue supporting SRB capital lease payments from auxiliary or other organizations. Operating expenses and debt service for the computation consist of the total operating expenses and debt service relating to these programs. The systemwide DSCR should be maintained at or above 1.45. If the SRB systemwide DSCR falls below 1.45, the campus benchmarks may be changed to strengthen the credit position of the Program. (See also Attachment A)

4.2 Combined Campus and Auxiliary Organizations (DSCR): At the combined campus and auxiliary organization level, the DSCR is similar to the systemwide DSCR test except that the amounts of pledged revenue, operating expenses, and debt service are related to the combined pledged revenues of the campus and auxiliary organizations' Established CSU Fees plus pledged revenue, operating expense and debt service that is related to the specific auxiliary organization Debt Program. The minimum requirement of the DSCR for a Combined Campus and its Auxiliary Organizations is 1.35.

4.3 Campus Debt Program (DSCR): The DSCR for a campus Debt Program must be equal to a minimum of 1.10. The DSCR for a campus Stand-alone Project must be equal to a minimum of 1.10. For these requirements the DSCR is computed from pledged revenue, operating expense and debt service that is related to the specific Debt Program or the Stand-alone Project.

4.4 Auxiliary Organization Project and Debt Program (DSCR): The DSCR for a campus auxiliary organization Debt Program must be equal to a minimum of 1.25. The DSCR for a campus SRB auxiliary organization Stand-alone Project must equal a minimum of 1.25. For these requirements the DSCR is computed from pledged revenue, operating expense and debt service that is related to the specific auxiliary organization Debt Program or the Stand-alone Project.

4.5 DSCR and Effective Year: The chief financial officer of a campus is responsible to implement plans and budgets so that the required DSCRs for campus CSU Established Fee programs and campus auxiliary organizations be supportable and maintained at or above the minimum level for the first operating year, and at or above the minimum for all subsequent years of operation for Stand-alone or Debt Program Projects.

Section 5: Debt Capacity

5.1 General Rule: Financing shall not be recommended by the Chancellor's Office if the issuance of new bonds will cause the total amount of issued and outstanding SRB bonds to exceed the CSU's debt capacity as determined by the Trustees.

5.2 Calculation of the CSU's Debt Capacity: Debt service on all issued and outstanding SRB bonds shall not at any time exceed an amount that would cause the quality of the CSU's credit to fall below a minimum level as determined by the Trustees.

5.3 Allocation of Debt Capacity to Campuses: Capacity, as measured by debt service on campus debt, shall be allocated to CSU campuses as follows:

5.3.1 Campus general allocation: The aggregate debt service related to a campus' individual projects shall not exceed an amount computed from its net unrestricted expenditures times two-thirds (2/3) of the same ratio that the Trustees have recognized as appropriate for the system.

5.3.2 Chancellor's Office special allocation: With concurrence of the Trustees, the Chancellor's Office may allocate portions of up to an additional one-third (1/3) of the CSU's debt service capacity to individual campuses for special priority purposes.

Section 6: General Financial Planning Principles For Projects

6.1 Project Size: The CSU SRB Program is intended to provide a mechanism to finance revenue based, and in some limited cases, non-revenue-based non-state capital outlay projects pursuant to the State University Revenue Bond Act of 1947 and the issuance of debt to the public through a complex legal structure and financial marketing process. As such, the Program is suitable for projects of greater than $3 million, and with a useful life of greater than ten years. For personal property financed through the commercial paper program, financings should be $100,000 to $5,000,000, with a useful life of 1-8 years. See Section 7 for program-related costs that should be funded through a reserve plan rather than through the issuance of debt.

6.2 Allocation of Debt Service: The plan of finance for SRB Projects shall assume level debt service and allocation of long-term debt over 25 or 30 years unless the useful life of the asset financed is less. In some cases, the debt service may be structured to allow for accelerating debt service, bullet repayments of principal, shorter repayment terms, or other special arrangements as determined appropriate for a project. The Trustees will be notified in the Financing item at the time of approval if an alternative debt service repayment schedule will be utilized.

6.3 Timing of Bond Sale: The plan of finance shall assume the sale of long-term debt at the time of initiation of construction (i.e., including capitalized construction period interest) to meet net revenue debt coverage ratio tests.

6.4 Interest Rate Assumptions: The plan of finance for Projects shall incorporate a moderate interest rate contingency for unfavorable changes in interest rates between the time of the initial financial plan and the time long-term bonds will be sold.

6.5 Consistency of Computations: Upon request the Chancellor's Office will provide the debt service information to be used in all financial plans relating to debt issuance in order to ensure that information regarding the debt is consistently prepared.

Section 7: Reserves

7.1 Reserve Development: The campus president and chief financial officer are responsible for developing and maintaining a campus policy to provide reserves from Project revenues for projects funded by debt issued by the Board of Trustees. The campus reserve policies, at a minimum, should address the following needs:

- Major Maintenance and Repair/Capital Renovation and Upgrade
- Working Capital
- Capital Development for New Projects
- Catastrophic Events

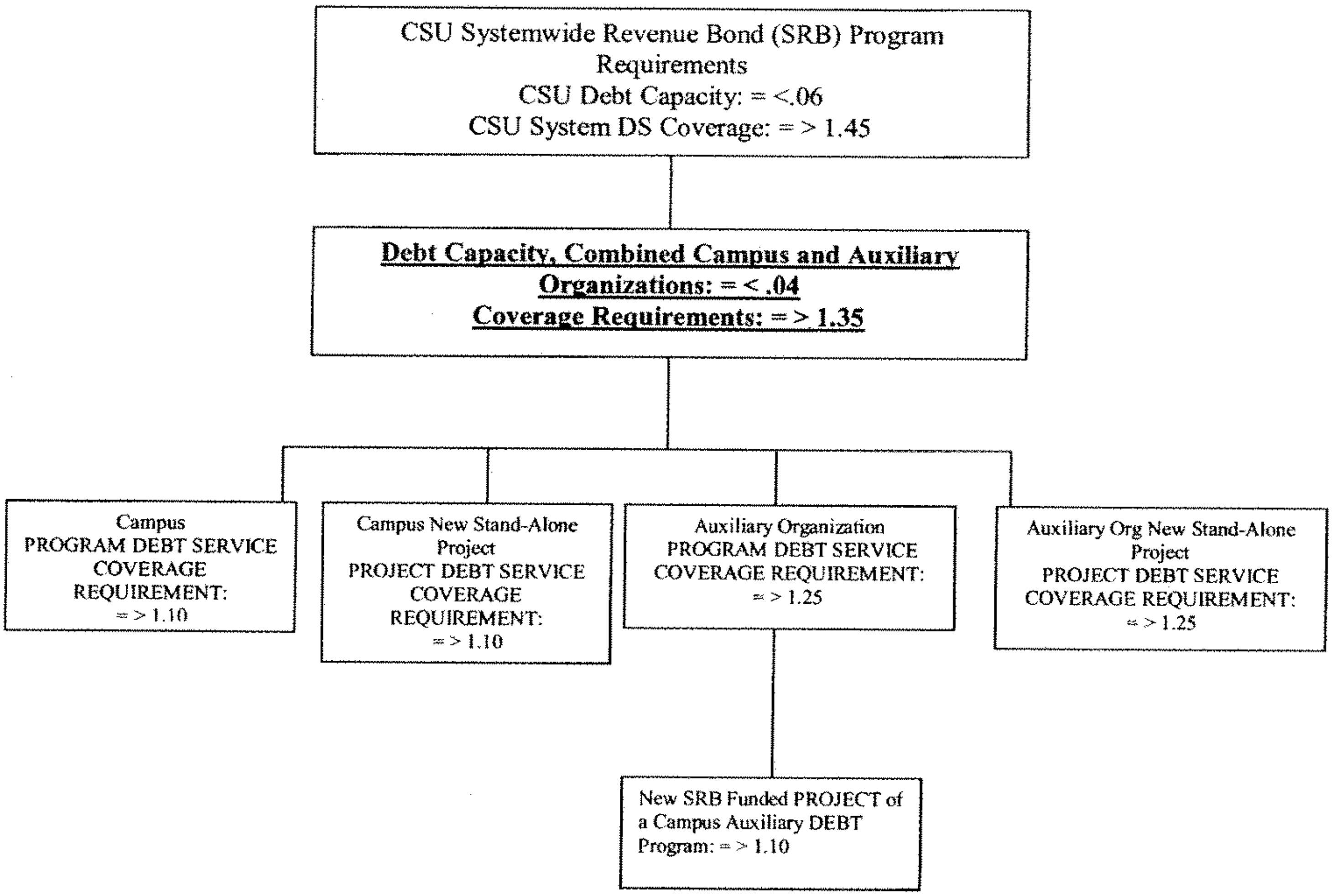
7.2 Reserve Review: At a minimum of once every three years, each campus shall conduct an in-depth review to assess the adequacy of the reserves and the campus reserve policies applicable to the projects funded by debt, and shall make necessary adjustments and changes to account for changing conditions. For Major Maintenance and Repair/Capital Renovation and Upgrade Reserves, the reviews should include formal studies of facility systems and necessary funding levels to cover all aspects of cost of replacement through the reserve-funding plan.

Charles B. Reed

Charles B. Reed, Chancellor

Date: October 23, 2006

Attachment A



Attachment B

CSU Policy for Financing Activities
Board of Trustees' Resolution
RFIN 03-02-02

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 CSU 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 CSU 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 CSU, and to use the limited debt capacity of the CSU 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"e 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 CSU's Debt Program

2.1 To use the limited debt capacity of CSU 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 that are not advantaged by, or 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 it is more advantageous for the transaction to be financed in this manner than 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 a Student Housing Project at California State University Northridge

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 to support interim financing under the commercial paper program of the California State University in an aggregate amount not-to-exceed $24,075,000 to provide financing for a student housing project at the CSU Northridge. The board is being asked to approve resolutions related to the project. The long-term bonds will be part of a future Systemwide Revenue Bond sale and are expected to bear the same ratings from Moody's Investors Service and Standard and Poor's as the existing Systemwide Revenue Bonds.

The project is as follows:

Northridge Student Housing, Phase II

The Northridge Student Housing project was approved by the board in May 2011 as part of the 2012/13 Nonstate Capital Outlay program and is also being presented to the board at this meeting for schematic approval during its Committee on Campus Planning, Buildings and Grounds. The Housing Proposal Review Committee , a seven member committee made up of a vice president of student affairs, two vice presidents of administration and finance, two housing directors, a director of a campus auxiliary organization, and chaired by a campus president, reviewed the housing plan in March 2012 and provided a positive recommendation for the project. The proposed 400 bed facility will consist of double occupancy rooms, study lounges, social/community rooms and laundry facilities totaling approximately 88,000 gross square feet. In addition, a 6,000 gross square foot community center comprised of multipurpose spaces, administration space, a learning center, recreation space, and a coffee house will be constructed. The project will be located within the University Park student housing complex, in the north-eastern quadrant of campus. The site is currently occupied by parking lot F8, an underutilized 900 space lot, which consistently uses no more than 50 spaces. Parking needs will be met through existing parking within the University Park complex and adjacent surface lot F10 located within a short distance from the project site.

The not-to-exceed par value of the proposed bonds is $24,075,000 and is based on a total project budget of $34,416,000 with a housing program reserve contribution of $12,705,950. Additional net financing costs (estimated at $2,364,950) are to be funded from bond proceeds. Good bids were received in January for design-build delivery of the project. The project is scheduled to start construction November 2013 with completion in April 2015.

The following table summarizes key information about this financing transaction.

Not-to-exceed amount	$24,075,000
Amortization	Approximately level over 30 years
Projected maximum annual debt service	$1,565,750
Projected debt service coverage including the new project: Net revenue – Northridge pledged revenue programs: [1] Net revenue – Projected for the campus housing program:	 2.20 1.72

1. Combines 2011/12 information for all of the campus' pledged revenue programs and projected 2015/16 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 5.28%, reflective of adjusted market conditions plus 100 basis points as a cushion for changing financial market conditions that could occur before the permanent financing bonds are sold. The financial plan includes level amortization of debt service, which is the CSU program standard. The campus financial plan projects a program net revenue debt service coverage of 1.72 in the first full year of operations in 2015/16, which exceeds the CSU benchmark of 1.10. When combining the project with 2011/12 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 2.20, 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 projects 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 $24,075,000 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 4 of the Committee on Finance at the March 19-20, 2013, meeting of the CSU Board of Trustees is recommended for:

Northridge Student Housing Phase II