

AGENDA

COMMITTEE ON FINANCE

Meeting: 1:30 p.m., Tuesday, March 25 2014
Glenn S. Dumke Auditorium

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

Consent Items

Approval of Minutes of Meeting of January 29, 2014

Discussion Items

1. Policy on Voluntary Statewide Student Involvement and Representation Fee (SIRF), *Information*
2. Report on the 2014-2015 Support Budget, *Information*
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 One Project, *Action*
5. Conceptual Approval of a Public/Private Partnership Mixed-Use Development Project at San Francisco State University, *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 29, 2014

Members Present

William Hauck, Chair
Roberta Achtenberg
Rebecca Eisen
Douglas Faigin
Margaret Fortune
Steven M. Glazer
Bob Linscheid, Chair of the Board
Lou Monville
Timothy P. White, Chancellor

Chair Hauck called the meeting to order.

Approval of Minutes

The minutes of November 5, 2013 were approved by consent as submitted.

Public Speakers

Trustee Hauck introduced Carol Shubin, Professor of Mathematics at California State University, Northridge, for public comment. Ms. Shubin commented on the number of students needing remediation and noted that lack of college preparedness increases time to degree and decreases graduation rates. She suggested that the CSU consider federal work study jobs tutoring middle school students.

Report on the 2014-2015 Support Budget (*Information Item*)

Ms. Sally Roush, interim vice chancellor introduced Ryan Storm. Mr. Storm has been appointed in an interim capacity as assistant vice chancellor for budget to carry out the responsibilities previously held by Robert Turnage. Mr. Storm previously worked at the California Department of Finance.

Ms. Roush referenced the printed agenda and noted that there are two main provisions in the Governor's proposed budget affecting the CSU, a base budget increase of \$142.2 million and a transfer to the base budget of an additional \$297 million to cover annual debt service payments for state general obligation (GO) bonds and lease revenue (LR) bonds associated with CSU facilities.

Ms. Roush stated the CSU welcomes the investment in our students and the faculty and staff who serve and support them. With the proposed transfer of the annual debt service amount, the CSU now has the challenge of envisioning a new methodology for covering the cost of its capital needs. Ms. Roush acknowledged the capable staff in the Chancellor's Office including Robert Eaton and George Ashkar in Financing and Treasury and Vi San Juan in Capital Planning, Design and Construction. Working with them and Mr. Storm, a select group of campus representatives, bond counsel, and financial advisors, the CSU will begin the task of defining a new approach to capital funding assuming the proposal passes. Ms. Roush then called on Mr. Storm to provide more background on the two major provisions and the three corollary proposals in the proposed budget.

According to Mr. Storm, the first of the two major provisions includes the augmentation of \$142.2 million for the support budget which represents the second year of a four-year proposed investment via the Governor's multi-year funding plan for higher education. The Governor's plan presumes that tuition fees will be held at 2011-12 levels. The proposal allows the CSU to allocate these new funds to its highest priorities without the state specifying how these funds can and cannot be used.

Trustee Hauck inquired as to what would happen if the Governor is unable to provide the anticipated funding. Mr. Storm noted that the Legislative Analyst's Office (LAO) believes the state's fiscal condition looks good for the coming years. However, were the CSU to not receive anticipated funding, staff would need to make recommendations to the Trustees and the Trustees would then have to make tough choices regarding access for students, compensation, etc.

The second major provision relates to the debt service framework. Per Mr. Storm, the state separately funds general obligation (GO) and lease revenue (LR) debt service for CSU capital improvement projects. These vehicles have been limited in recent years. The last GO bond was approved by the voters in 2006 and nearly all of those proceeds have been exhausted. The use of the LR bonds (via the State Public Works Board) was significantly curtailed during the recent economic and state budget crises.

Mr. Storm noted that a similarly crafted debt fold-in plan was approved for the University of California (UC) last year. The Chancellor's Office Business and Finance team worked very closely with the Department of Finance to ensure that CSU concerns were addressed and that needed flexibilities and tools were included in the Governor's latest proposal.

Trustee Hauck noted that this was a major policy shift. Chair Linscheid inquired about the actual amount of CSU deferred maintenance systemwide. Ms. San Juan indicated it was approximately \$1.8 billion. Interim Vice Chancellor Roush commented that while the CSU would pay debt over time and use the annual budget to finance infrastructure needs, this alone will not finance all of CSU's deferred maintenance needs. She stated that staff will bring back to the board a plan to address the infrastructure needs gap. Trustee Monville asked that the plan consider pension obligations as well. Trustee Hauck requested a three to five year analysis and plan that considers ability to pay back debt and the ability to fund deferred maintenance and new buildings. He noted that the CSU is under pressure to increase the number of students it serves with less general fund money.

Governor Brown encouraged the board to look at the total cost of running the University. Capital costs need to be integrated with all other costs, such as salaries, that are vital to running the University to enable the board to make the best possible decisions. Chancellor White noted the importance of having coherent short-term and long-term plans for capital needs and added that the CSU is facing a critical moment in infrastructure that is a real inhibition to the student learning environment. Chancellor White then called on President Wong of San Francisco State University to comment on the impact of a recent unexpected building closure causing the relocation of nearly 10,000 enrollments in 10 days. President Wong expressed that at this point it cannot be determined whether or not the building can be used again in the future. Chancellor White noted that there are several similar examples throughout the system of a campus facing an unexpected major outage or issue and emphasized the need to be timely and in some cases in crisis mode at our campuses.

Mr. Storm proceeded to explain that this proposal will allow CSU to expend up to 12 percent of its general fund appropriation for capital purposes on a pay as you go basis or for debt financing (current law prohibits the use of the appropriation for capital purposes). This proposal would allow the CSU to restructure the LR debt (approximately \$99 million). It would also authorize the CSU to pledge its general fund and other revenue sources to secure debt obligations, including the Trustee approved \$15 million over the next three years to finance near term deferred maintenance.

Per Mr. Storm, the Governor's overall budget proposal also includes three additional provisions. The first is regarding the Academic Program Sustainability Plan which was approved last year. This plan requires the CSU to report to the state on several student success measures. The Governor's budget proposes to require the CSU to establish a multi-year plan that would establish annual goals for these measures. Further, the proposal requires the CSU to outline assumed multi-year revenues and expenditures that would support the goals.

The second is a new initiative, Awards for Innovation in Higher Education. This initiative provides for \$50 million of one-time funding. Grants are to be awarded to public colleges and universities by a committee largely selected by the Governor. The purpose of the program is to bring to scale best practices and strategies to increase the number of individuals who earn

bachelor's degrees, strive to allow students to complete those bachelor's degrees within a 4-year horizon, and ease the transfer of students into and between the state public education systems.

The third provision relates to a change in the Cal Grant Program. During the modern era of the Cal Grant Program, the practice was that once determined eligible for a Cal Grant, the Student Aid Commission never again verified a student's income eligibility during the student's college career. A few years ago, that Student Aid Commission practice was statutorily changed so that annual income verification was required for all returning students. An unintended consequence of the law change was that if a student's income exceeded certain levels, that student would permanently lose his or her eligibility – even if that student's income fell back within the Cal Grant eligible levels later in the student's college career. The Governor proposes to allow students that have lost their eligibility one year and meet income eligibility requirements the next, to regain their Cal Grant eligibility. For the CSU, this proposal would positively affect hundreds of students each year.

Per Mr. Storm, the two major and three corollary provisions in the 2014-2015 Governor's Budget makes higher education a priority. The proposal would allow the CSU to invest in all of the areas identified in the Board of Trustees approved support budget request.

As for next steps, a major milestone is the Governor's May Revision. Already, the LAO has indicated that there could be a few billion dollars more in the state budget. It is also worth noting that that in December Assembly democrats indicated a desire to invest more in higher education. It is encouraging news that higher education is a priority to both the Governor and the Assembly leadership.

Trustee Garcia inquired about the timing of the implementation of the transition to a multi-year budget plan referenced in the Academic Sustainability Plan. Mr. Storm indicated that, assuming the budget is adopted in July, by August the Department of Finance should be able to provide CSU with the assumptions needed to build the multi-year plan.

Trustee Monville questioned some of the assumptions received to date by the Department of Finance, in particular the focus on improving graduation rates. Trustee Monville wanted to make sure the students served by the CSU are considered, as these students are quite different than those served by the UC. Trustee Monville questioned whether the differences in our student populations were being factored in. Mr. Storm stated that the onus will be on the CSU to decide the goals for each performance measure.

Trustee Glazer referenced the \$15 million in the support budget that the CSU is proposing to leverage for capital infrastructure needs (\$15 million added over three years – a \$45 million ongoing commitment). This means that the CSU would need to commit to continue to support this decision and questioned if this issue is worthy of a future board discussion. Trustee Hauck concurred especially in light of the fact that the money that would be leveraged is not nearly enough to support the CSU's deferred maintenance and new infrastructure needs. Trustee Hauck

then requested a risk analysis with regards to the CSU's critical infrastructure needs. Chancellor White indicated that there will be subsequent discussions in March and May as the CSU receives more clarity on the support it will receive from the state and this will allow the board to discuss priorities.

Trustee Vargas questioned the timeline for the Awards for Innovation in Higher Education. Mr. Storm clarified that the intent of this initiative is to identify best practices; to build upon existing successful programs and bring them to a larger scale. Proposals are to be submitted to the committee by the beginning of January 2015 and the committee will determine which proposals to fund.

Trustee Achtenberg questioned the amount of GO and LR debt service the CSU is proposed to receive (close to \$300 million) compared to the UC (close to \$400 million) and if any consideration was made in light of the fact that the CSU system has many more campuses than UC. Trustee Achtenberg questioned the difference in state investment that has already been put into each system and if any assessment had been made to determine if it is equitable for the UC to have been allocated an amount larger than the CSU. Mr. Storm proposed bringing back to the board such an assessment. Governor Brown stated that the universities benefit as they receive a lower interest rate on debt than the state due to the differences in credit ratings. Governor Brown emphasized the need for CSU to look at its overall budget and stated that maintaining facilities has to be a priority.

Trustee Hauck reiterated the large deferred maintenance need and Chair Linscheid commented on addressing the ongoing need. Trustee Monville noted that each time a decision is made to defer maintenance upgrades the actual cost of that maintenance goes up because the infrastructure continues to degrade. Trustee Monville requested a discussion in future meetings about how the deferred maintenance costs change over time. Governor Brown inquired if the concern at hand is how to address the current debt service or if it is how to address outstanding needs. Ms. San Juan commented that the concern appears to be how to address the \$1.8 billion in deferred maintenance that has not yet been addressed. Governor Brown noted that the state has \$63 billion in deferred maintenance and additional obligations for pension benefits as well as the wall of debt. Even though there is money coming in, the state has enormous obligations and noted that the CSU is better off than the state of California. He believes the CSU can manage the debt service in a way that makes money and that the CSU will need to take a look at it, see if it works, and if not, the Governor will have further discussions with the CSU and negotiate and come up with the best we can. Governor Brown stated that the CSU should be addressing deferred maintenance rather than bringing in more people, offering more courses, and doing other things. Maintaining facilities must be done. Fiscal discipline is needed.

Trustee Hauck stressed that the CSU is trying to convey its realities. Trustee Glazer stated that dividing the debt issue may help. The state is giving the CSU money for its current debt obligation and there doesn't seem to be an objection to that. The concern could be that is the end of the story, when the reality is that the CSU has more needs. If it is implied that with this debt

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roll-in the CSU cannot make the case for additional infrastructure and deferred maintenance needs, then that idea may create pushback. Governor Brown stated that he understands there is a huge need that this debt roll-in proposal does not address, however the CSU needs to take its deferred maintenance needs into consideration when making choices on spending. The CSU needs a total framework for looking at all of its costs. Trustee Hauck emphasized that the CSU's concern pertains to desperation funding for issues like the recent issue at San Francisco State and addressing buildings that are nearly 40-60 years old. He stated that if the CSU is going to continue to take as many students as possible it needs those facilities operational.

There being no further questions, Trustee Hauck adjourned the Committee on Finance.

COMMITTEE ON FINANCE

Policy on Voluntary Statewide Student Involvement and Representation Fee (SIRF)

Presentation By

Sally F. Roush
Interim Vice Chancellor
Business & Finance

Sarah Couch
California State Student Association President

John Haberstroh
Associated Students President
California State University, Long Beach

Summary

The California State Student Association (CSSA) is the recognized statewide student organization for California State University students. CSSA currently relies on funding from two sources: a portion of Student Body Association dues collected from campus Associated Students, Incorporated (ASI) and an annual funding augmentation from the Chancellor's Office. These funds have supported student participation in campus and system level decision-making, but current funding levels limit broad student participation across the state and nationally. In an effort to expand systemwide student engagement, consultation, and representation on issues of importance, CSSA is seeking long-term, direct funding that will ensure all CSU students are more consistently and actively represented before policymakers at the university, state, and federal levels.

This information item presents a proposal to establish, following consultation with campus ASI representatives and Chancellor's Office staff, a voluntary Statewide Student Involvement and Representation Fee (SIRF). As proposed, the fee shall be assessed during the fall and spring terms of each academic year with a fully disclosed option to not pay if the student does not support the fee charge. The fee would be required of all matriculated regular, limited, and special session students attending the CSU. Students registering solely in extension courses would be exempt.

Background

The CSSA was founded in 1958 as the California State College Student President's Association (CSCSPA). In 1979, the organization renamed itself to the California State Student Association. CSSA was established by the campus associated student body organizations so that students may have a formal and effective means for participating in the formulation of systemwide, state, and national policies that have or may have an effect on students. The CSSA, or its successor, is recognized as the official representative of the students of the CSU before the Board of Trustees and the Chancellor's Office. CSSA provides a collective voice for CSU students to the state government, the California State University system, and other state boards and commissions. CSSA student leaders are part of the CSU shared leadership process; they contribute during the CSU's decision-making process and are vital to the well-being and life of the university. In 2001, the trustees adopted the Student Participation in Policy Development (SPPD) statement developed by the California State University Advisory Committee on Student Participation in Policy Development. The statement established CSSA responsibility in both local and system CSU policymaking processes.

Justification for Voluntary Statewide Student Involvement and Representation Fee (SIRF) Proposal

As the longstanding statewide student association for the largest four-year university system in the nation, CSSA is positioned to positively impact the future of the CSU system. The SPPD calls on the CSU system to make greater strides toward student participation in policy development in order to enhance institutional effectiveness and responsiveness to student needs. Currently CSSA is dependent on a voluntary portion of membership fees collected by the 23 local student associations, which has in recent years been augmented by an annual allocation from the Chancellor's Office. However, to ensure the broadest possible participation of students in policy development CSSA should have revenue that supports the long-term financial stability of the organization.

CSSA receives an annual funding augmentation from the CSU Chancellor to ensure its ability to fund student engagement in university governance (Board of Trustees, systemwide committees, task forces, and workgroups); student representation to policy makers; student leadership development opportunities; and other education and training programs. Furthermore, the CSSA's intention to broaden opportunity for input and participation in governance supports the CSU's mission to provide opportunities for individuals to develop intellectually, personally, and professionally through active participation in student governance. Through authorization of a voluntary student fee, the trustees would create a long-term, stable revenue stream to implement fully the student participation responsibilities outlined in the SPPD, enable the association to establish a higher degree of financial independence from the CSU system, and would allow

students the individual choice to contribute financially to statewide student representation.

Purpose for which revenue from SIRF will be used

The proposed SIRF recommendation ensures the opportunity for students to have comprehensive and effective involvement in the development of policies and procedures that have or will have an effect on current and future students.

Revenue from the fee will be used to ensure students are able to fund the activities of the CSSA and thereby ensure the overall ability of students to participate in policy development at the system, state and national levels. Revenue from the fee will provide additional funding support for development of student policy recommendations, expenses in support of student participation and representation activities, and CSSA professional and support staff expenses.

The SIRF would be established at the rate of \$2 per student, to be assessed each fall and spring term. The chancellor is delegated specified authority for the oversight and adjustment of the SIRF Category I fee in consultation with the CSSA and its constituents. Adjustments to the SIRF shall be made in consideration with the annual percentage change in the Higher Education Price Index (HEPI) and in consideration of a revenue and expenditure plan for the adjusted fee. Implementation and administration of this fee shall be consistent with the parameters identified in this board item, including the ability for students to voluntarily elect to not support the fee charge, and shall be made with adequate disclosure to allow students the opportunity to make informed decisions when assessing the total cost of education.

Fiscal Impact and Efforts to Mitigate Impact of SIRF on Students with Need

The fiscal impact of this policy on the overall cost of attendance is neutral to modest. Any student, including those with financial need, who is unable to cover the additional cost of the SIRF has the ability to not pay the fee. Implementation of the SIRF could result in a cost savings for the CSU system and campus ASI organizations, as funds currently provided by both in support of CSSA student participation could be decreased or eliminated. Development of the administrative procedures necessary to manage the voluntary nature of this systemwide fee may require modest increases to student financial services staff workloads.

Technical Considerations for Implementation Student Involvement and Representation Fee

Student Profile

- All CSU students – undergraduate, graduate, and credential – will be assessed the fee.
- Students enrolled in multiple campuses, such as through CourseMatch, will not be assessed the fee twice.

Financial Aid Applicability

- Financial Aid will not be increased to cover this fee because of its voluntary nature.
- This fee is not covered by the State University Grant (SUG) or the Cal Grant, as those aid sources only cover tuition.
- Pell Grant, other grants, and loans may cover this fee.

Circumstances Related to Termination of a Students' Enrollment

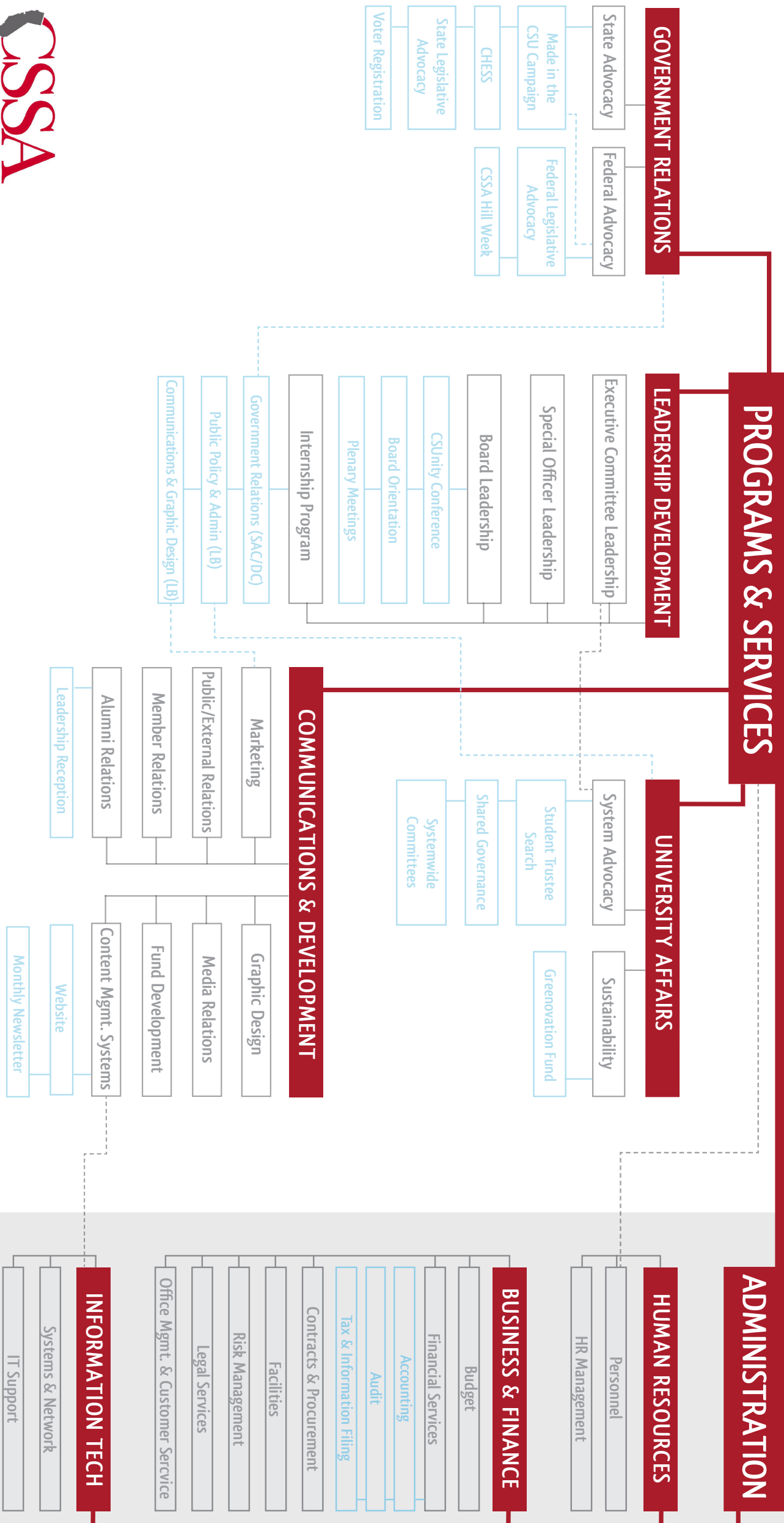
- Students who are disqualified or withdrawn from the university will not receive a reimbursement of this fee due to their change in status.
- Students who do not pay the fee face no negative recourse, such as disenrollment, for electing to not pay the fee.

Ensuring Accountability in Use of Funds

- The funds will be collected by the chancellor and held in trust for use by the CSSA.
- The CSSA and CSU will maintain an operating agreement to ensure overall accountability.

Trustees' Authority in Title V and Other Policy

- Title V provides the trustees with authority to recognize a student body association
- Title V provides the trustees with authority to implement systemwide voluntary fees



Student Involvement & Representation Fee (SIRF)

Proposed by the California State Student Association

Program Areas/Spending Categories	Subprogram areas	Amount
<u>University Affairs</u>	Shared Governance/Participation Campus Programming Human Resources (student & professional)	\$1.20
<u>Leadership Development</u>	Representative Government Student Internships Student trainings/conferences Human Resources (student & professional)	\$1.20
<u>Government Relations</u>	State Relations Federal Relations Human Resources (student & professional)	\$0.40
<u>Administration</u>	Business and Finance Information Technology Human Resources (student & professional)	\$0.80
<u>Communications & Development</u>	Fund development Alumni Relations Member Relations Media Relations Public Relations Human Resources (student & professional)	\$0.40
		\$4.00

COMMITTEE ON FINANCE

Report on the 2014-2015 Support Budget

Presentation By

Ryan Storm
Interim Assistant Vice Chancellor
Budget

Background

At the November 5-6, 2013 meeting of the California State University Board of Trustees, the board approved the CSU 2014-2015 Support Budget request. That budget request called for an increase of \$334.3 million, including \$237.6 million from state funds and \$96.7 million of net student fee revenues tied to enrollment growth. The approved uses of the increase are as follows.

- \$13.7 million for mandatory cost increases (health benefits and new space)
- \$50.0 million for Student Success and Completion
- \$91.6 million for a three percent compensation increase pool
- \$163.8 million for five percent enrollment growth
- \$15.0 million for financing maintenance and infrastructure needs
- \$0.2 million for Center for California Studies

As discussed at the January 2014 Board of Trustees meeting, Governor Brown issued his 2014-2015 budget proposal. In addition to the combination of adjustments and expectations explained at the last board meeting, the Governor's proposal provides \$142.2 million in State support and a proposed debt service framework change that would shift debt service and future capital funding responsibilities from the State to the University.

Summary

At the March 2014 meeting, the board will be provided with an update of developments regarding the CSU 2014-2015 Support Budget.

COMMITTEE ON FINANCE

California State University Annual Debt Report

Presentation By

George V. Ashkar
Assistant Vice Chancellor
Financial Services

Summary

This 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 CSU Board of Trustees at its March 2002 meeting. At the same meeting, the Board also amended the CSU Policy on Financing Activities (RFIN 03-02-02) 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, 2013 and December 31, 2013, the outstanding SRB debt of the CSU was approximately \$3,605,000,000 and approximately \$3,507,000,000, respectively.

Other Key Characteristics of the SRB Portfolio are as follows:

Debt Ratings: Aa2 (Moody's)
AA- (Standard & Poor's)

Weighted Average Cost of Capital: 4.50%

Weighted Average Maturity: 14.3 Years

Interest Rate Mix: 100% Fixed Rate

SRB Operating Performance and Debt Service Coverage Ratios

For the fiscal years ended June 30, 2011, June 30, 2012, and June 30, 2013, operating performance and debt service coverage ratios for the SRB program were as follows (amounts in millions):

	<u>June 30, 2011</u>	<u>June 30, 2012</u>	<u>June 30, 2013</u>
Operating Revenues	\$1,313	\$1,375	\$1,475
Operating Expenses	<u>918</u>	<u>999</u>	<u>1,078</u>
Net Revenues	395	376	397
Annual Debt Service	205	226	243
Debt Service Coverage ¹	1.93	1.66	1.63

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

Debt Rating Upgrade

On June 28, 2013, Standard & Poor's Ratings Services upgraded the debt rating on the SRB program from A+ to AA- with a stable outlook.

2013A SRB Issuance

In July 2013, the CSU issued \$308,855,000 in bonds to refund existing SRB and auxiliary debt, producing net present value savings of \$19.8 million, or 6.17% of the refunded bonds. The refunding of debt will benefit sixteen campuses and will save SRB programs across the system approximately \$1.5 million in combined cash flow per year.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR



BAKERSFIELD

CHANNEL ISLANDS

October 23, 2006

CHICO

MEMORANDUM

DOMINGUEZ HILLS

EAST BAY

TO: CSU Presidents

FRESNO

FROM: Charles B. Reed
Chancellor

FULLERTON

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

HUMBOLDT

LONG BEACH

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

LOS ANGELES

MARITIME ACADEMY

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.

MONTEREY BAY

NORTHBRIDGE

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

POMONA

SACRAMENTO

CBR/tr

SAN BERNARDINO

Attachment

SAN DIEGO

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

SAN FRANCISCO

SAN JOSÉ

SAN LUIS OBISPO

SAN MARCOS

SONOMA

STANISLAUS

Executive Order 994

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

Executive Order 994

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

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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, 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

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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.

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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

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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.

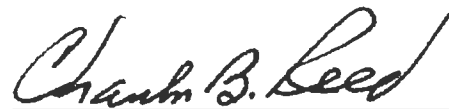
6.5 Consistency of Computations: Upon request the Chancellor's Office will provide the debt service information to be used in all financial plans relating to debt issuance in order to ensure that information regarding the debt is consistently prepared.

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

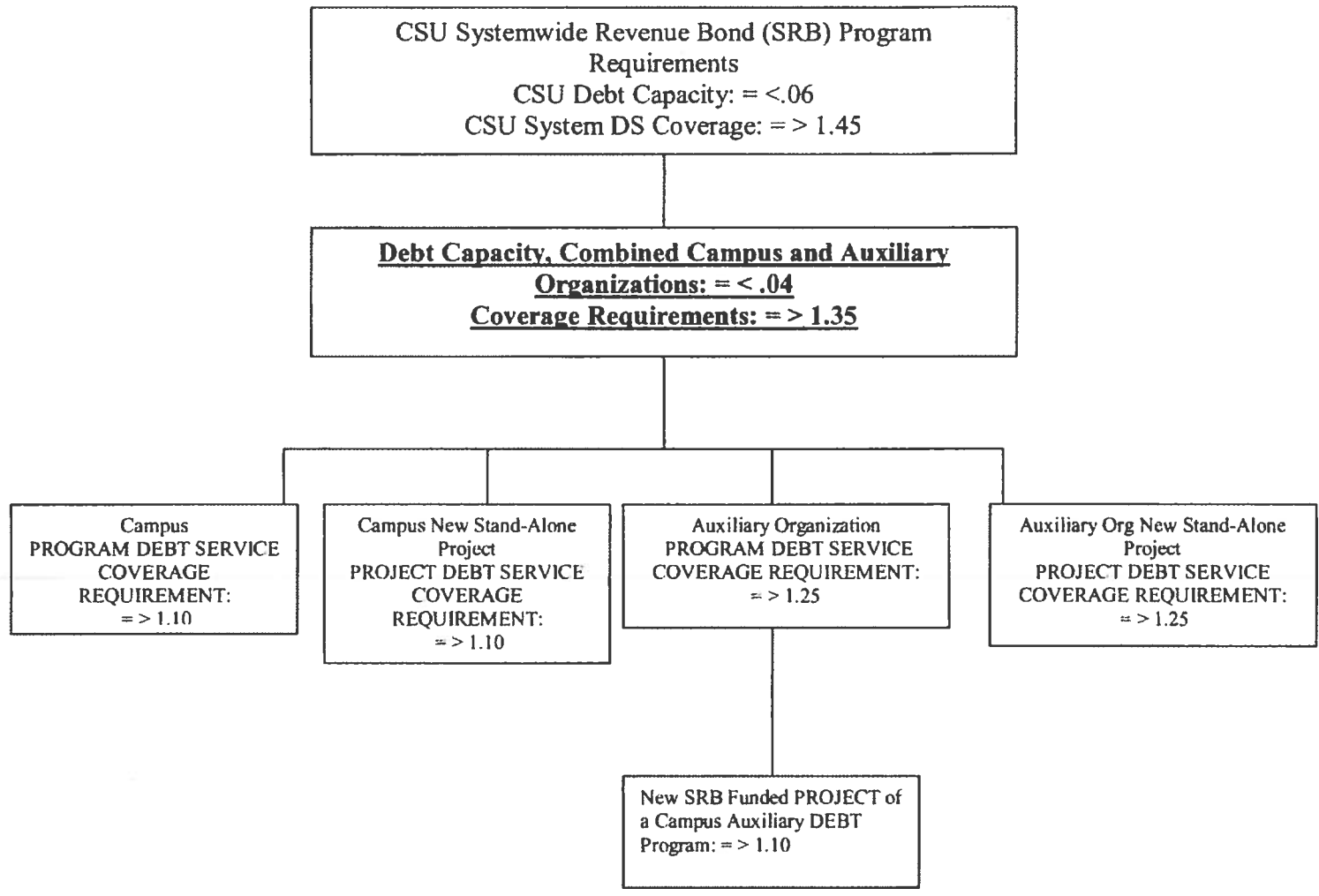
7.2 Reserve Review: At a minimum of once every three years, each campus shall conduct an in-depth review to assess the adequacy of the reserves and the campus reserve policies applicable to the projects funded by debt, and shall make necessary adjustments and changes to account for changing conditions. 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, 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.

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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

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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

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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 One Project

Presentation By

George V. Ashkar
Assistant Vice Chancellor
Financial Services

Summary

This item requests the California State University 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 CSU in an aggregate amount not-to-exceed \$57,570,000 to provide financing for a campus project. The board is being asked to approve resolutions related to this financing. The long-term bonds will be part of a future Systemwide Revenue Bond sale and are expected to bear the same ratings from Moody's Investors Service and Standard & Poor's as the existing Systemwide Revenue Bonds.

San Diego State University Zura Hall Renovation

The San Diego State University Zura Hall Renovation project was approved by the board for the amendment of the Non-state Capital Outlay program in January 2014 and has obtained schematic approval by the Chancellor's Office under authority delegated to the Assistant Vice Chancellor, Capital Planning, Design and Construction for renovation projects. The project is a complete renovation and systems upgrade of a 600-bed freshmen housing complex originally constructed in 1968. The 140,928 gross foot facility consists of three wings, five to nine stories tall, surrounding an elevator core tower. The facility is, and will continue to be, operated by the campus housing program. On a per bed basis, renovation of the facility can be completed at roughly half the cost compared to demolition and construction of a new facility. In addition, renovation can be accomplished faster, avoiding an additional year of adverse impacts on students and the loss of revenue. Displaced students will be accommodated by reconfiguring three student housing facilities to triple occupancy.

The not-to-exceed par value of the proposed bonds is \$57,570,000 and is based on a total project budget of \$53,292,000 with a housing program reserve contribution of \$2 million. Additional net financing costs (estimated at \$6,278,000) are to be funded from bond proceeds. This design-build project is scheduled to start construction in June 2014 with completion in May 2015.

The following table summarizes key information about this financing transaction.

Not-to-exceed amount	\$57,570,000
Amortization	Approximately level over 30 years
Projected maximum annual debt service	\$4,032,284
Projected debt service coverage including the new project:	
Net revenue – San Diego pledged revenue programs: ¹	2.10
Net revenue – Projected for the campus housing program:	2.19

1. Combines 2012/13 information for all campus' pledged revenue programs and projected 2016/17 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 5.96%, reflective of adjusted market conditions plus 100 basis points as a cushion for changing financial market conditions that could occur before the permanent financing bonds are sold. The financial plan includes level amortization of debt service, which is the CSU program standard. The campus financial plan projects a housing program net revenue debt service coverage of 2.19 in 2016-2017 the first full year of operations, which exceeds the CSU benchmark of 1.10. When combining the project with 2012-2013 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 2.10, which exceeds the CSU benchmark of 1.35.

Trustee Resolutions and Recommended Action

Orrick, Herrington & Sutcliffe LLP, as bond counsel, is preparing resolutions to be presented at this meeting that authorize interim and permanent financing for the project described in this Agenda Item 4 of the Committee on Finance at the March 25-26, 2014. 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 \$57,570,000 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 Acting Deputy Assistant Vice Chancellor, Financing, Treasury, and Risk Management; 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 25-26, 2014, meeting of the CSU Board of Trustees is recommended for:

San Diego State University Zura Hall Renovation

COMMITTEE ON FINANCE

Conceptual Approval of a Public/Private Partnership Mixed-Use Development Project at San Francisco State University

Presentation By

Sally F. Roush
Interim Vice Chancellor
Business and Finance

Leslie E. Wong
President
San Francisco State University

Summary

San Francisco State University requests conceptual approval to pursue a plan through the University Corporation, San Francisco State University (“UCorp”), a recognized campus auxiliary organization in good standing, for a mixed-use development on campus land in order to meet the need for additional student housing, create retail space, and transform the surrounding area as envisioned in the campus’ 2007 physical master plan.

Background

Consistent with its 2007 campus master plan, the campus has identified an underutilized section of the campus, commonly known as Holloway Avenue, as a prime site for revitalization and improvement. As the campus continues to serve a growing student population from out of the region, the demand for on-campus housing and retail offerings has far exceeded supply.

To assess the extent of the demand, the campus conducted a comprehensive market demand study to ascertain the need for additional housing, retail space, and other facilities. The study concluded that demand exists for approximately 150 units (400 beds) of student housing, 40,000 to 50,000 square feet of retail, food and beverage services, and approximately 5,000 square feet for campus-related faith-based organizations.

Project Description

The project site is identified as Block 6 and is currently part of University Park South, a campus-operated residential housing project, located on Holloway Avenue in the southeastern corner of

the campus. This area serves as one of the campus' primary entry points and includes a key transit hub with light-rail and several bus lines. Block 6 currently has 27 units (68 beds) of older, low density housing managed by the campus housing program.

Through a public-private partnership, the site will be upgraded into a mixed-use development comprised of approximately 90 units (approximately 225 beds) of modern, student-friendly housing above the ground floor and 40,000 square feet of ground level retail space for food and beverage, entertainment, and recreational uses.

The campus anticipates there will be a significant positive impact on the project site and the campus as a whole, with transit improvements planned in the area, including a new transit station. (The transit improvement is under management and oversight of the San Francisco Municipal Transit Authority and is separate from and independent of the Holloway development project.) Redevelopment of this site will revitalize the area and serve as a vibrant node of activity and welcoming gateway to the campus. The project's close proximity to the campus will allow residents to be less reliant on private automobiles, thereby continuing the campus' long-standing commitment to sustainability.

The building design will complement existing campus housing style, design, and building material. The developer will be required to work with the campus to ensure that the project meets campus programmatic needs.

Budget, Financing and Existing Debts

A campus auxiliary originally acquired the project site in 2001 through the issuance of standalone auxiliary organization bonds. The auxiliary bonds were refinanced by CSU Systemwide Revenue Bonds in 2007, at which time title transferred to the CSU. The campus will enter into a ground lease on the project site with UCorp, which will in turn sublease the land to a private developer for related financing, construction, and management of the property during the term of the sublease. The ground lease with UCorp will be structured to ensure that the campus revenues are based upon fair market value, at minimum, and to protect debt service on the existing SRB debt allocated to Block 6.

UCorp will require the developer to fund all costs associated with the environmental and entitlement processes in accordance with CSU requirements. Neither the campus nor UCorp will have an investment in the project, with the developer providing 100% financing. The campus will ensure that the facilities revert to the campus upon the agreement's expiration.

Educational Benefits

The development of the project site will help support the academic mission of the campus by

providing greater access to much-needed student-friendly housing for many who otherwise would not be able to live on or near campus, since the current on-campus housing facilities are at capacity. Additionally, a vibrant, revitalized space will enable the campus to increase student participation in campus-related activities and enhance retention and graduation rates, while at the same time creating a focal point for the campus and the surrounding neighborhood.

Approval of the Final Development Plan

Per board policy, as the project moves forward, related master plan revisions, if any, amendments of the non-state capital outlay program, any proposed schematic plans, financial plans, proposed key business points of the finalized development plan, and the required environmental documents will be presented at future meetings for final approval by the Board of Trustees prior to execution of any commitments for development and use of the property.

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 concept of a public/private partnership for a mixed-use development on approximately one acre of land on Holloway Avenue, identified as Block 6, at San Francisco State University;
2. Authorize the chancellor, the campus, and UCorp to enter into negotiations for agreements as necessary to develop a final plan for the public/private partnership as explained in Agenda Item 5 of the March 25-26, 2014 meeting of the Committee on Finance;
3. Will consider the following additional action items relating to the final plan:
 - a) Certification of Final California Environmental Quality Act (CEQA) documentation;
 - b) Approval of a development and financial plan negotiated by the campus and a developer with the advice of the chancellor;
 - c) Approval of any amendments to the campus master plan as they pertain to the project;
 - d) Approval of an amendment to the Non-State Capital Outlay Program;
 - e) Approval of the schematic design.