AGENDA

COMMITTEE ON FINANCE

Meeting: **3:25 p.m., Tuesday, May 20, 2014**
Glenn S. Dumke Auditorium

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

Consent Items

Approval of Minutes of Meeting of March 25, 2014

Discussion Items

1. Report on the 2014-2015 Support Budget, *Information*
2. California State University Annual Debt Report, *Information*
3. Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for Various Projects, *Action*

MINUTES OF THE MEETING OF
COMMITTEE ON FINANCE

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

March 25, 2014

Members Present

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

Trustee Achtenberg called the meeting to order.

Approval of Minutes

The minutes of January 29, 2014 were approved by consent as submitted.

Public Speakers

Trustee Achtenberg introduced several public speakers. Most spoke in support of the voluntary statewide student involvement fee.

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

Interim Vice Chancellor Sally Roush introduced the information item with a brief review of the California State University Student Fee Policy. The Board adopted a strategic framework for student fees and educational costs in March 1993. This framework was founded on the principle that the State would provide funding for basic access to the university, and that revenue from a thoughtful program of fee revenue would fund improvements directly benefitting students. Such revenue is intended to enhance the academic program, increase the availability of courses and facilitate student progress to degree.

In May 2010, the Board adopted the "CSU Fee Policy" which incorporated the earlier policy and established categories of fees and specified which entity has authority over each category. Pursuant to this policy, the Board of Trustees retains unto itself the authority to establish fees charged at the same rate to every enrolled student at each university throughout the system. As such, these fees are commonly referred to as "system-wide fees," or in the language of the fee policy, "Category I fees."

California Education Code section 89300 authorizes the establishment of a student body organization "for the purpose of providing essential activities closely related to, but not normally included as part of, the regular instructional program at the university." The statute also provides that the Trustees "may fix fees for voluntary membership in the organization established at a state university."

This agenda item proposes a new voluntary Category I system-wide fee, to provide a generally stable and predictable annual source of revenue for the California State Student Association (CSSA), the Trustee-approved official representative organization of the 446,000 students in the CSU system. This item and the deliberations and communications that will occur between now and the May board meeting, ensure that the notice and administrative requirements of both CSU policy and Education Code section 89300 will be met by the time the Board is presented with an action item in May.

There is a unique aspect to this proposal. It has risen from the students at one of our universities, California State University, Long Beach, through the governance process of CSSA itself. It comes before the Board at the request of the statewide student organization. The proposal has two other important distinguishing features; first that the fee will be voluntary by providing students the choice not to pay the fee; and second that the revenue will go directly to the student organization for leadership and growth opportunities.

The details of this proposal will be presented by Sarah Couch, California State Student Association President and John Haberstroh, Associated Students President at CSU Long Beach, where this proposal had its beginnings.

Ms. Couch began with a brief background on the California State Student Association, stating it was established in 1958 by CSU student body presidents, to provide students a formal means to inform and influence system, state and national policies that affect them. The CSSA Board of Directors is composed of the elected student leaders from the 23 CSU campuses and serves as the official student voice for the California State University. The board meets regularly to take up issues critical to students and participates in university decision-making. The CSSA provides students with leadership and professional development opportunities and represents, advocates, and serves CSU students.

Progress has been incremental. In the 1960s a student body president from San Jose State by the name of Bill Hauck achieved the seemingly small victory of becoming a recognized participant at CSU Trustee meetings, as it was noted that students indeed have a legitimate interest in trustee business. In the 1970s CSSA sponsored successful legislation to place a student on the CSU Board of Trustees and gained the authority to conduct the search and nomination process.

While CSSA accomplishments are many, its needs are significant. Of utmost importance is the need to stabilize, anticipate funding levels, to become more independent, and to strengthen the organization to a level adequate for an association representing 446,000 CSU students.

Mr. Haberstroh proceeded to explain that this information item proposes the implementation of a $4 per year fee to fund all operations and activities of the California State Student Association. The fee is modest for students who benefit from CSSA's programs and services, yet the combined revenue will enable CSSA to meaningfully represent the large CSU student body. It was discussed by the duly-elected student representatives from all 23 campuses.

The collection of this fee will create additional independence for the student voice and broaden student participation in the CSU system. It will ensure that students are engaged in the decision making process that affects their education. CSSA is positioned to positively impact the future of CSU students, as its voice enhances institutional effectiveness and responsiveness to student needs. In order to ensure the broadest possible participation of students, CSSA should have revenue that supports the long-term financial stability of the organization. Under our current funding model, CSSA relies on voluntary membership dues from the 23 local student associations, and an annual allocation from the Chancellor's Office.

In 2000, CSSA signed a memorandum of understanding with the Office of the Chancellor. This was proposed by CSSA's student leadership in order to provide an opportunity for every campus to actively play a leadership role in the association, regardless of the fiscal strength of any particular Associated Students organization, and to ensure stronger internal management. The MOU stated, "The long term objective of CSSA is to develop financial support of the organization independent of the Chancellor's Office." The MOU was refined and subsequently resigned by Chancellor White and CSSA leadership in 2013.

The $4 will generate the level of revenue needed to carry out CSSA's mission and purpose on behalf of 446,000 students. The proposal is approximately proportional to the current spending by category for CSSA and is consistent with supporting the breadth of activities envisioned by CSSA's Board of Directors. The primary goal is to strengthen our programs in order to broaden currently limited student involvement within our organizational framework. Students have identified the need for more opportunities within university affairs, leadership development, and government relations. The student board of directors will continue to serve as the stewards of CSSA funds and will be accountable to their constituents by ensuring that resources benefit the diverse needs of our student body.

Diane Guerin, Academic Senate Chair stated that the senate is in support of this fee. Trustee Vargas also showed support for the fee stating that he considered this a high impact practice as a result of the high impact practices it provides to students and believes this fee would increase offerings available to students.

Trustee Monville, Chair Linscheid, and Trustee Glazer commended the students on their commitment to this effort. This is something that has been discussed for many years. Trustee Glazer questioned what president this may set, the limits on use of the funds, and if these funds would be audited.

Ms. Couch stated that CSSA does conduct a yearly audit and the proposal requires the CSSA to conform to GAAP principals. She added that the MOU with the CSU would be updated and address issues to ensure student organizations are comfortable with the changes.

Trustee Stepanek requested a report in May on the implementation costs and how these costs will be covered.

Report on the 2014-2015 Support Budget, *Information Item*

Interim Assistant Vice Chancellor Ryan Storm stated the purpose of this item is to provide an update on the 2014-15 operating budget. At future meetings, more granular detail of the total CSU budget as well as sub-components such as research, philanthropy, and auxiliary organizations will be discussed.

The largest revenue sources for the CSU are the state appropriations and student tuition and fees. These two sources are fungible, meaning, if the state appropriations can be used to pay for something, so too can student tuition and fees—and vice versa. On the other hand, federal financial aid and self-supported fund are restricted. These fund sources are not fungible— they cannot be used to cover student tuition and fee and/or state appropriation-related expenses. Both state and federal law governs the limited uses of these funds.

It should be noted that there are State University Grant (SUG) tuition and fees that are never collected, but waived for socio-economically disadvantaged students and other unique student populations. Board policy and state law prescribe how these discounts and waivers are administered.

Because the CSU is principally a people enterprise—tens of thousands of faculty and staff educating and supporting hundreds of thousands of students—the preponderance of expenses are committed to salaries and benefits. Regarding the capital budget, non-state systemwide revenue bonds are approved by, and are an obligation of, this Board. Typically, these bonds purchase new non-academic facilities for the CSU such as parking, student housing, student unions, and other self-support infrastructure. These capital budget dollars may not be expended on operating expenses and, conversely, operating revenues may not be expended on capital (with some limited exceptions). Bond dollars for one type of bond cannot be used to support another type of bond. They are restricted by state and federal laws and bond covenants.

The written agenda item includes a summary of the main provisions of the CSU operating budget approved by the Trustees in November as well as the main provisions of the Governor's Budget from January. In a typical year, there is little state-level budget action that occurs between the January and March Trustees meetings. This year is one of those typical years. In February, both houses received a critique of the Governor's January budget proposal last month from the Legislative Analyst's Office. The Legislative Analyst offers fiscal and policy advice to the state Legislature. Recommendations should be viewed as items that will be discussed by the Legislature but should not be viewed as items that will be adopted by the Legislature.

The Legislative Analyst made the following significant recommendations regarding CSU for the 2014-15 fiscal year: grow full-time equivalent students by 7,000, a tuition increase of 5 percent, and an unallocated increase of $53 million to cover inflationary cost increases. The Legislative Analyst is silent on compensation, near and long term infrastructure needs, and the student success and completion goals contained in the Trustees budget.

In total, the Legislative Analyst recommends that the state provide $125 million of state funding to the CSU. This recommendation is less than the Governor's proposal of $142 million. And it is less than the $237 million plan adopted by the Trustees and the level of resources the Trustees deemed both reasonable and necessary to meet California's workforce and educational needs.

Switching to the Assembly and Senate activities, each house has held one budget hearing. These hearings have been very high level discussions with no budgetary actions taken. On the Assembly side, the Chancellor presented challenges and made the case for more state investment in people, structures, and technology to enable us to properly meet the State's workforce needs. The takeaway from this Assembly overview hearing is that there was quite a bit of focus and interest in increasing enrollments at CSU. The takeaway from the Senate hearing is that there is a strong interest to monitor CSU performance to inform budget decisions and to strategically invest state resources in areas that align with statewide goals.

Due to the year-round nature of managing student enrollments, the Chancellor's Office has made a timely commitment to grow systemwide enrollment by 8,339 full-time equivalent students for Fall 2014. The campus presidents have been notified of their specific enrollment targets.

The Chancellor's Office regularly has discussions about how best to prioritize resources among all of our pressing needs. In addition, the Chancellor, the Business and Finance staff, the Advocacy and State Relations staff, and many other CSU stakeholder groups are actively pursuing additional funding from the state.

Trustee Perez questioned how the CSU would prioritize funding considering it is not likely the full $237 million request will be funded by the state. Chancellor White stated that the CSU has committed to redouble its efforts to provide students with a timely high quality degree at a moderate cost which will require an investment in many areas, such as an investment in tenure track faculty. An investment in technology to create more access is also critical as is an investment in predictive analytics to help students identify what courses to take and help campuses plan course sections.

Chancellor White also stated that investing in student success at CSU will help the state reach its need for an additional million degrees by 2025 as well as improve time to degree. The CSU isn't asking for more money, the CSU is willing to serve California's future but there is a cost to do this. The CSU has a frayed capital, technology and human resources infrastructure and those areas will not by systematically addressed unless steps are taken in these areas.

Trustee Achtenberg referenced the CSU impact report that demonstrated that every dollar invested in CSU is returned five-fold. Governor Brown noted that there are many needs and only a certain amount of money. The Legislature and Governor's staff has to look at the entire picture. It is challenging to grasp what is important versus what can be done another way. There is a gap and there will always be a gap. He believes savings will eventually show up as technology and specific platforms improve.

Trustee Achtenberg stressed that the CSU is requesting additional investment not additional need.

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

Assistant Vice Chancellor George Ashkar stated this item requests the Board to authorize the issuance of Systemwide Revenue Bonds (SRB) and the issuance of Bond Anticipation Notes (BANs) to support interim financing under the Commercial Paper program of the California State University in an aggregate amount not-to-exceed $57,570,000 to provide financing for a campus student housing renovation project, the Zura Hall Renovation at San Diego State. This project was approved as a non-state capital project at the January Board of Trustees meeting.

The project is scheduled to start construction in June 2014 with completion in May 2015. The campus financial plan projects a housing program net revenue debt service coverage of 2.19 in the first full year of operations in 2016-2017, which exceeds the CSU benchmark of 1.10. 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. Exceeding the benchmark is desirable.

The SRB program has been a valuable tool for campuses to rely on for needed facilities that are ineligible for any kind of state funded support. The program is well managed at both the system and campus level and remains strong. Staff recommends approval of the project.

Upon motion duly made and seconded, the committee approved the Issuance of Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for One Project.

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

Interim Vice Chancellor Sally Roush stated that, in May of 2000, the Board of Trustees adopted a revised policy governing the development of public/private partnerships. The policy applies to projects that involve long-term contractual relationships that use or develop campus real property to further the educational mission of the campus through the acquisition of physical assets, income, and/or educationally related opportunities for students and faculty.

Campus presidents are responsible for the planning and execution of all matters related to real property development on their respective campuses. The executive vice chancellor and chief financial officer is responsible for assisting campuses in planning such projects and for staff review and analysis prior to action by the Board of Trustees.

The policy requires that, early in the process, the campus present a conceptual plan to the Board of Trustees for their approval. The presentation is for the purpose of describing campus aspirations for and context of the proposed project. The initial approval enables the campus to go forward with further planning, analysis, due diligence and issuance of an RFP. The policy also requires that before execution of any commitments for the use of the property, the campus will seek final approval of the project from the Trustees.

San Francisco State University President Les Wong stated that the campus, in partnership with the University Corporation, San Francisco State ("UCorp"), aims to create a mixed-use development on campus land in order to meet the need for additional student housing. It will also create retail space and transform the surrounding area as envisioned in the campus' 2007 physical master plan. The project site was included in the 2007 physical master plan. A key outcome of the 2007 physical master plan effort was an agreement with the City and County of San Francisco to address traffic effects resulting from the plan and to provide for continued cooperation in the future.

This project aims to take an underutilized block of university-owned land just across Holloway Avenue from the main campus and through a public/private partnership, transform it into an attractive public entrance to the campus that will serve as a vibrant node of public activity, as well as a convenient location student housing. 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. The campus commissioned a market study to ascertain demand for additional housing and retail; the study confirmed that significant demand exists.

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 project also aims to improve the streetscape on and around Holloway Avenue, especially by making it more pedestrian- and bicycle-friendly with a strong focus on accessibility and increased connectivity to the rest of campus.

The development of the project site will help support the academic mission of the campus. It will provide 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. 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. The public-private nature of the project will allow the campus to benefit from the expertise of others in mixed-use projects such as these while also generating revenue to support the university.

Trustee Norton questions if the actions of municipal transit authority are contingent on this project. The campus noted that the projects are running concurrent but independently.

Trustee Day requested information on the terms of the agreement. Governor Brown inquired as to the expected income and whether that would primarily come from the units or the retail. Trustee Perez also inquired about the potential return on investment. President Wong stated that these additional details will be brought back to the board.

Upon motion duly made and seconded, the committee approved the public/private partnership mixed-use development project concept at San Francisco State University.

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

COMMITTEE ON FINANCE

Report on the 2014-2015 Support Budget

Presentation By

Ryan Storm
Interim Assistant Vice Chancellor
Budget

Background

The California State University Board of Trustees approved the 2014-2015 Support Budget request at its November 2013 meeting. 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

Governor Brown issued his 2014-2015 Budget Proposal in January 2014. The most significant components of this proposal are: (1) an increase of $142.2 million that could be used for operating and capital needs of the CSU and (2) a new capital budget proposal that would shift debt service and future capital funding responsibilities from the state to the university. The former component is consistent with the governor's multi-year plan to increase funding for higher education (now in its second of four years) and the latter component is the third attempt to gain approval from the legislature.

The discussions on the governor's proposal during the January 2014 and March 2014 CSU Board of Trustees meetings provided the Chancellor's Office important feedback that has helped frame additional budget discussions with the Department of Finance (DOF) and the legislature. As a result, the Chancellor's Office has implemented an active strategy to obtain $95.4 million more from the state than proposed by the governor's budget proposal. That amount of funding will bridge the gap between the trustees' request ($237.6 million) and the governor's January proposal ($142.2 million). Additionally, the Chancellor's Office requested additional funding from the DOF for the capital budget proposal. An appropriate level of funding provided at the

May Revision could complement the statutory flexibilities and tools envisioned under the proposal.

The development of the 2014-2015 state budget began in summer of 2013 and the state is less than two months away from completing its 2014-2015 state budget. Below is what remains:

1. The DOF will release its May Revision on May 14, 2014, which will provide updated revenue estimates for the upcoming fiscal year and will propose how to spend those revenues.
2. The Assembly and Senate will independently hold their post-May Revision budget hearings and will make final decisions on the governor's and their own budget proposals.
3. The houses will hold budget hearings to reconcile differences between their budget plans in order to create a single budget plan.
4. The legislature will vote on a final state budget in the middle of June.
5. The governor may veto portions of the budget and approve the remainder by June 30.

Legislative Hearings

The budget subcommittees for education finance in the Assembly and the Senate have held several hearings this spring on the governor's higher education budget proposals as well as issues of particular interest to them. So far, they have focused more on policy changes contained in proposed budget bill or budget trailer bill language than on the proposed appropriation amounts. They have given particular attention to academic sustainability plans that would build upon performance metrics established in law last year, the $50 million one-time innovation grants for higher education proposal, the capital budget proposal for CSU, and the need for new student access and improved access and completion for current students at the universities.

The Senate has approved the equipment phases for three continuing campus construction projects and has not made final decisions on any other policy or budget proposals.

The Assembly has not made final decisions on any policy or budget proposals.

May Revision

To date, the budget subcommittees have refrained from taking action on appropriation amounts for the CSU and the other higher education segments based on an expectation that the May Revision will identify a substantially altered state revenue picture for the 2014-2015 fiscal year. Based on personal income tax collections during the month of April 2014, the state may end the

2013-2014 fiscal year with revenue above the January budget forecast. At the time this agenda item was prepared, however, major uncertainties still existed, including:

- Forecast economic growth and estimated revenues for the 2014-2015 fiscal year.
- The extent to which the state's constitutional spending guarantee for K-12 schools and community colleges (Proposition 98) would claim additional state revenues.
- The extent to which state populations and caseloads change in the corrections and rehabilitation, health, and social service program areas.

Final CSU Budget Decisions are Dependent on Final State Decisions

In the past, the CSU has made final budgetary decisions at the May Board of Trustees meetings because it was generally known how the state would fund the CSU at that time. In good economic times, a funding agreement or compact with the then governor would be assumed and ultimately funded. In more challenging economic times, the trustees anticipated in the March and May meetings the need to align the trustees' budget with amounts indicated in the governor's January budget proposal or his May Revision.

This year is different. The governor's funding plan is significantly less than the trustees' budget request. The state's coffers may have positive revenues and there has been significant interest by the legislature to reinvest in the CSU after many years of significant funding reductions. The legislature may augment the CSU budget. With final state budget decisions still to be determined, there will not be enough information to determine a final budget for the CSU at the May 2014 meeting. Instead, the Chancellor's Office will await final state decisions, likely to occur by June 30, 2014, before finalizing the CSU budget pursuant to resolution RFIN 11-13-07 passed in November 2013 that authorizes the chancellor to adjust and amend the support budget to reflect changes in the assumptions upon which the budget is based.

Summary

At the May 20-21, 2014 meeting, the board will receive a full update on the May Revision and any changes affecting the CSU budget.

COMMITTEE ON FINANCE

California State University Annual Debt Report

Presentation By

George V. Ashkar
Assistant Vice Chancellor/Controller
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 Revenue Bond Act of 1947 (Education Code Sections 90010-90082), 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—including 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 March 31, 2014, 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):

	June 30, 2011	June 30, 2012	June 30, 2013
Operating Revenues	$1,313	$1,375	$1,475
Operating Expenses	918	999	1,078
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. Exceeding the benchmark provides a favorable impact to the CSU's credit ratings.

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.

2013 SRB Issuance

In July 2013, the CSU issued Series 2013A bonds for $308,855,000 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
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SAN MARCOS
SONOMA
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October 23, 2006

MEMORANDUM

TO: CSU Presidents

FROM: 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
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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, 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

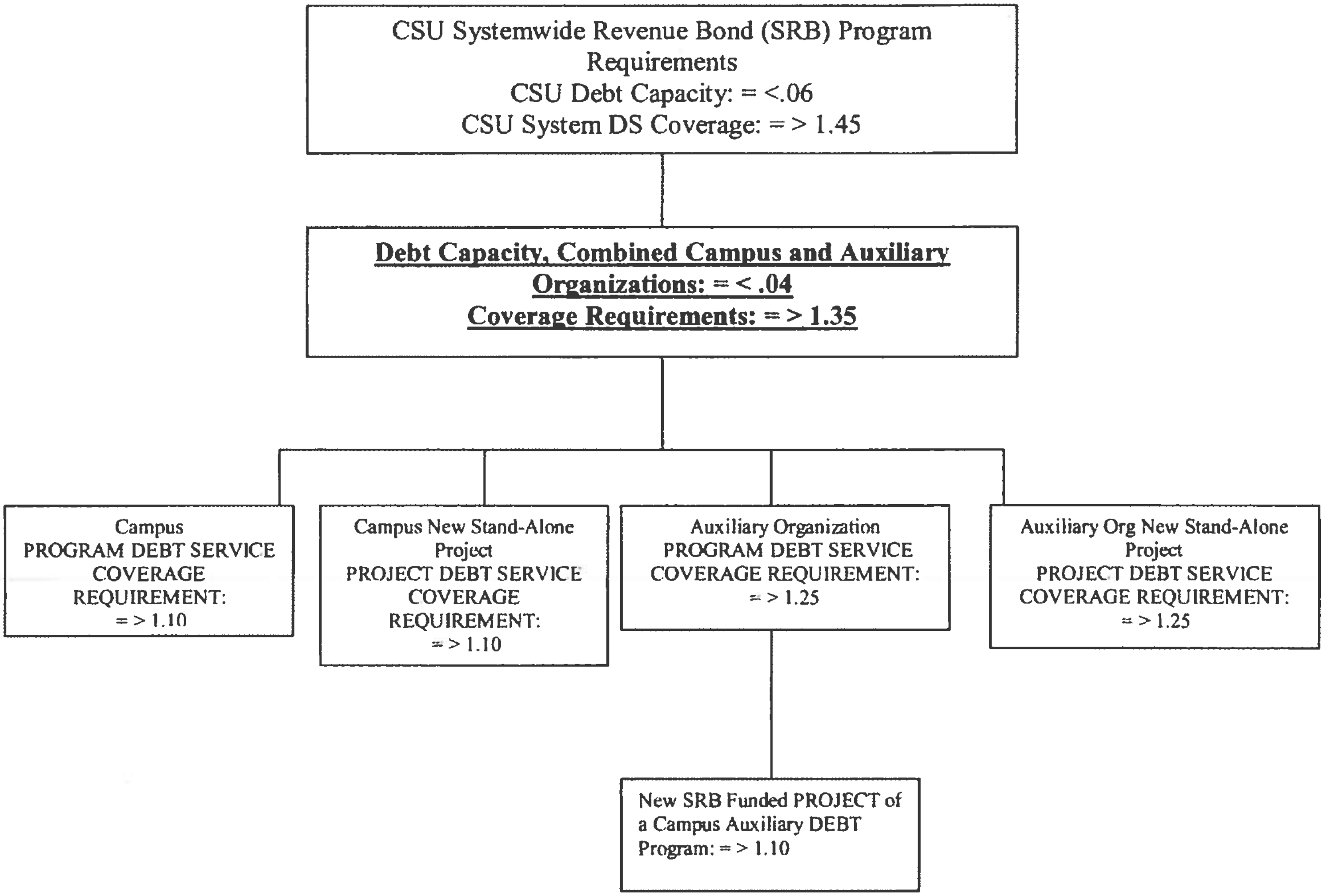
7.2 Reserve Review: At a minimum of once every three years, each campus shall conduct an in-depth review to assess the adequacy of the reserves and the campus reserve policies applicable to the projects funded by debt, and shall make necessary adjustments and changes to account for changing conditions.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

Presentation By

George V. Ashkar
Assistant Vice Chancellor/Controller
Financial Services

Background

The Systemwide Revenue Bond (SRB) program provides capital financing for revenue-generating projects of the CSU – student housing, parking student union, health center, 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. Prior to issuance of bonds, projects are funded through bond anticipation notes (BANs) issued by the CSU to the CSU Institute, a recognized systemwide auxiliary organization, who in turn provides short-term borrowing proceeds from its issuance of commercial paper (CP) notes to fund CSU-approved capital outlay projects during the construction phase. CP notes provide financing flexibility and lower short-term borrowing costs and are secured by BANs. Permanent bonds are issued with proceeds used to retire CP outstanding.

Summary

This item requests the California State University Board of Trustees to authorize the issuance of long term SRB financing and the issuance of BANs to support interim financing under the CP program in an aggregate amount not-to-exceed $150,700,000 to provide financing for two campus projects and to refund an outstanding issue of auxiliary organization bonds. The board is being asked to approve resolutions related to this financing and the refunding. 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.

The financing projects are as follows:

1. San Jose State University Campus Village Housing 2

The San Jose State University Campus Village Housing 2 project is being presented for approval to the board for the amendment of the Non-state Capital Outlay program and schematics during the May 2014 Committee on Campus Planning, Building and Grounds meeting. The project consists of a ten story, 850-bed facility to be occupied by first-time freshmen as part of the on-campus freshmen housing requirement. A portion of the project will replace existing, older housing inventory that will be demolished, providing a net increase of approximately 450 beds. It will include a multi-purpose room, a recreation room, an office suite, lounges, and study rooms. The approximately 192,895 gross square foot facility will be located next to the existing Campus Village Complex housing facility in the southeast area of the campus. The campus received a positive recommendation for the project from the Housing Proposal Review Committee in March 2014.

The not-to-exceed par value of the proposed bonds is $140,860,000 and is based on a total project budget of $126,186,000 with a housing program reserve contribution of $6,186,000. Additional net financing costs, such as capitalized interest and cost of issuance (estimated at $20,860,000) are to be funded from bond proceeds. This design-build project is scheduled to start construction in June 2014 with completion in July 2016.

The following table summarizes key information about this financing transaction.

Not-to-exceed amount	$140,860,000
Amortization	Approximately level over 30 years
Projected maximum annual debt service	$9,782,000
Projected debt service coverage including the new project: Net revenue – San Jose pledged revenue programs: [1] Net revenue – Projected for the campus housing program:	 1.62 (Benchmark is 1.35) 1.25 (Benchmark is 1.10)

1. Based on campus projections of 2017-18 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 5.78 percent, reflective of adjusted market conditions plus 100 basis points as a cushion for changing financial market conditions that could occur before the permanent financing bonds are sold. The financial plan includes level amortization of debt service, which is the CSU program standard. The campus financial plan projects a housing program net revenue debt service coverage of 1.25 in 2017-2018, the first full year of operations, which exceeds the CSU benchmark of 1.10 for the program. When combining the project with information for all campus pledged revenue programs, the campus' overall net revenue debt service coverage for the first full year of operations is projected to be 1.62, which exceeds the CSU benchmark of 1.35 for the campus. Exceeding the benchmark is desirable.

2. California State University San Marcos Field House Expansion

The California State University San Marcos Field House Expansion project was approved by the board as an amendment to the Non-state Capital Outlay program in March 2014 and will be presented to the board for schematic approval during the May 2014 Committee on Campus Planning, Building and Grounds meeting. The project will be a multipurpose venue for sports, enabling the campus to achieve National Collegiate Athletic Association Division II membership standards. The project is located adjacent to the existing M. Gordon Clark Field House and will enhance the academic mission by providing: a) a facility within which the athletic teams will be able to practice and compete; b) an on-campus venue for students to attend games; c) a facility for students to participate in recreational/intramural sports; and d) possible academic space for the kinesiology department. The 26,500 gross square foot facility will include a 1,400-seat gymnasium, locker rooms, an entry lobby with ticket and concession stands, restrooms, and building support spaces. In June 2013, a $25 per term increase in the student body center fee was approved to support the project financing.

The not-to-exceed par value of the proposed bonds is $6,925,000 and is based on a total project budget of $11,400,000 with a student union program reserve contribution of $5,500,000. Additional net financing costs, such as capitalized interest and cost of issuance (estimated at $1,025,000) are to be funded from bond proceeds. This design-build project is scheduled to start construction in July 2015 with completion in October 2016.

The following table summarizes key information about this financing transaction.

Not-to-exceed amount	$6,925,000
Amortization	Approximately level over 30 years
Projected maximum annual debt service	$483,022
Projected debt service coverage including the new project: Net revenue – San Marcos pledged revenue programs: [1] Net revenue – Projected for the campus student union program:	 1.80 (Benchmark is 1.35) 1.71 (Benchmark is 1.10)

2. Combines 2012-2013 information for all campus' pledged revenue programs and projected 2017-2018 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 5.82 percent, 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 student union program net revenue debt service coverage of 1.71 in 2017-2018, the first full year of operations, which exceeds the CSU benchmark of 1.10 for the program. 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 1.80, which exceeds the CSU benchmark of 1.35 for the campus. Exceeding the benchmark is desirable.

3. The CSU, Chico Research Foundation – Office Building Refunding

The CSU, Chico Research Foundation (the "Foundation"), a recognized auxiliary organization in good standing at California State University, Chico, seeks board approval for the refunding of an existing stand-alone auxiliary organization bond issue. On April 15, 2014, the Chico Research Foundation's Board of Directors adopted a resolution authorizing the refunding of the auxiliary bonds through the SRB program and execution of related documents, including a master loan agreement between the board of trustees and the Foundation.

The project will consist of retiring all of the Foundation's auxiliary organization bonds, Series 2003 ("2003 Bonds") currently outstanding in the amount of $3,815,000. Of that amount, $2,915,000 will be refunded with SRB proceeds, approximately $662,000 will be retired with proceeds contributed by the campus, and the balance will be retired using funds currently on deposit in the reserve fund associated with the 2003 Bonds.

The 2003 Bonds were issued to fund costs associated with the acquisition and improvement of a 19,000-square foot office building (commonly known as "25 Main"), and refinance certain prior bonds, originally issued in July 2000 to fund costs associated with the acquisition and improvement of an office building (commonly known as "35 Main") and a soccer stadium.

The size of the proposed refunding is at a not-to-exceed par amount of $2,915,000, and is estimated to generate a net present value savings of approximately $237,193.13, or 6.22 percent of the refunded bonds. The not-to-exceed amount and the net present value savings are based on a current all-in true interest cost of 4.01 percent, which is reflective of favorably adjusted market conditions and a modest cushion for changing financial market conditions that could occur before the refinancing bonds are sold, and an average remaining bond maturity of slightly over 10 years.

The loan agreement for the refunding of the stand-alone auxiliary organization bonds will be secured by a general obligation pledge of the Foundation's unrestricted revenues. This refunding will have a minimal impact on systemwide debt capacity, as this auxiliary debt is already included in overall CSU debt capacity calculations.

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 item. 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/or 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 $150,700,000 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 3 of the Committee on Finance at the May 20-21, 2014, meeting of the CSU Board of Trustees is recommended for:

San Jose State University Campus Village Housing 2

California State University San Marcos Field House Expansion

The CSU, Chico Research Foundation – Office Building Refunding