AGENDA

COMMITTEE ON FINANCE

Meeting: **8:00 a.m., Wednesday, March 25, 2015**
Glenn S. Dumke Auditorium

Roberta Achtenberg, Chair
Steven M. Glazer, Vice Chair
Talar Alexanian
Adam Day
Rebecca D. Eisen
Debra S. Farar
Margaret Fortune
Lupe C. Garcia

Consent Items

Approval of Minutes of Meeting of January 28, 2015

Discussion Items

1. Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for Projects at California State University, Sacramento, California State University, Los Angeles, and California State University, Northridge, *Action*
2. Conceptual Approval of a Public/Private Partnership Multi-Family Housing Development Project at California State University Channel Islands, *Action*
3. California State University Annual Debt Report, *Information*
4. Update on Administrative Efficiency Initiatives, *Information*

MINUTES OF THE MEETING OF
COMMITTEE ON FINANCE

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

January 28, 2015

Members Present

Roberta Achtenberg, Chair
Steven M. Glazer, Vice Chair
Talar Alexanian
Adam Day
Rebecca D. Eisen
Debra S. Farar
Margaret Fortune
Lupe García
Lou Monville, Chair of the Board
Timothy P. White, Chancellor

Trustee Achtenberg called the meeting to order.

Approval of Minutes

The minutes of November 13, 2014 were approved by consent as submitted.

Public Comments

Trustee Roberta Achtenberg introduced 14 public speakers. One spoke in favor of the recommendations made by the working group on Category II student success fee, particularly the binding student vote. The remaining speakers commented on the Statewide Student Involvement and Representation Fee (SIRF), with three speaking in opposition of the fee and the remainder in support of the fee.

Working Group on Category II Student Success Fee, *Action Item*

Chancellor Timothy White stated that the process and findings of the working group on Category II Student Success Fees were discussed at the November trustees meeting. He noted that the working group incorporated comments from the board, along with information gathered from students, faculty, staff and campus leadership to finalize the set of recommendations. Chancellor White explained that he believed the recommendations would both protect and enable students and the campus communities. He added that the recommendations would ensure that the adoption of campus-based Category II Student Success Fees truly reflect the will of the students paying the fees and provide for ongoing transparency and accountability. Importantly, the recommendations include the ability of students to rescind the fees. He noted the importance of the moratorium on new student success fees through January 1, 2016 and added that staff would continue to work with legislators to address concerns, beginning with a report to the state by February 1, 2015. He then briefly summarized the final recommendations. First, he stated that campuses seeking future Category II Student Success Fees must have a process for adopting the fees approved in advance. As part of this process, campuses should continue rigorous upfront efforts to consult with students, faculty and staff. In addition, the process for adopting new fees will require a binding, 50 percent plus one vote of students to implement a new fee. He stated that this is true to the spirit of students choosing to support their own education and to the principle of local control. He added that the chancellor would then consult with the chair of the Board of Trustees before final approval is granted if the fees are used for direct instructional purposes historically covered by tuition or state appropriations. The approval of both the campus president and the chancellor would be required before any fee is implemented.

Chancellor White added that, based on the campus community's perception of the benefit of the fees, existing Category II Student Success Fees at twelve campuses are to remain unchanged and in place, unless rescinded by a vote of the students. He noted that the work group also heard from many in the CSU community about the pros and cons of a sunset provision for fees. In an effort to balance the many valid comments that were expressed, the workgroup recommended that fees could be terminated by a binding student vote after 6 years. Current fees may be voted on starting in 2021. He indicated that the process for bringing forward and voting on a proposal to rescind a fee would be similar to that of adopting a fee. If a vote to rescind passes, the president and chancellor would provide oversight to avoid any contractual liabilities.

Chancellor White stated that the campus community and public would have access to information related to the fees to ensure transparent accountability, include a web presence. In addition, reporting to the chancellor and the public will occur annually. Both campus and systemwide reporting should be easily accessible and understandable. Campuses should be held to this standard for all new and existing Category II Student Success Fees.

He concluded by thanking his fellow workgroup members, and the students, faculty and staff of the CSU community who took the time to have voice their opinions on this important matter. He added that what was brought forward today was a thoughtful response to the charge given to the group last year. He stated that the major concern is to make sure that the will of the students is heard. He acknowledged Trustee Talar Alexanian who, as a trustee and a student, brought tremendous insight to the deliberations. He then invited Trustee Alexanian to share her observations.

Trustee Alexanian stated that the group took into consideration comments from all constituencies. She added that the California State Student Association (CSSA) passed a resolution in support of the work group policy recommendations that included having a majority student support, maintaining individual campus autonomy, implementation, allocation of fees, maintaining an online transparent process, as well as a transparent reporting process of Category II fees to the board. Finally, she stated that allowing the flexibility of a sunset clause empowers students to initiate such a fee and to rescind it if the fee is not serving its purpose.

Trustee Adam Day complimented the working group on the proposal and indicated that almost everything he raised as a concern in November was addressed. He stated that he supports the recommendations and appreciates the work of the group.

Speaker Toni Atkins stated that she would later abstain from the vote because this would be a topic of discussion in the legislative review process. She commented that it addressed a lot of the legislative concerns and sets the course for accountability and transparency. She added that a question she and her colleagues may have during the legislative review process is related to the impact of the fees on low income students and if there would be a mechanism in place to deal with this issue. She also commended the work of the group.

Trustee Rebecca Eisen inquired if campuses are obligated to have a funding advisory group made up of a majority of students. Chancellor White responded that campuses are required to have such groups in place and invited President Mildred García to discuss how this group is working at CSU Fullerton. President García shared that at CSU Fullerton the committee works on documenting and implementing the fee, and is made up of mostly students. It also ensures that students receive information regarding the fee via email and visuals around campus. Currently the campus has a campaign called the Student Success Fee at Work.

Trustee Lou Monville stated that he is familiar with the student population at Fullerton and knows this is a population with high need. He asked how this issue is being addressed at Fullerton. President García informed him that when the campus first considered the fee, they looked at how it would affect low income students and ultimately factored it into the financial aid package. Chancellor White added that President Elliot Hirshman has a hardship clause at San Diego State with regard to student success fees. President Hirshman noted that low income students often benefit the most from having additional faculty, advisors and co-curricular programs.

Trustee Steven Stepanek inquired if the student success fees aimed at hiring tenured track positions would fall under the long term and ongoing obligation clause. Chancellor White responded that it would fall under that clause. He provided an example of an entry level assistant professor appointed to a campus and supported by a student success fee. He stated that if some time in the future the student success fee is rescinded, that portion of the student success fee that is supporting that faculty member would continue as long as that faculty remains employed at that campus.

Trustee Steven Glazer indicated he is supportive of this resolution. He added the only issue that he has with it is the long term obligations and inquired how campuses would be dealing with these. He would like to ensure that committees are aware of the long term obligations. Chancellor White responded that following the board's action it would be translated into executive orders and coded memorandum. He added that it would be very clear to campuses considering creating a fee with a 10-30 year horizon that it be part of the discussion. He stated that the executive orders would provide a clear direction to the campuses on these matters. Trustee Glazer thanked the Chancellor and asked that in the memorandum it be clear that as these committees and students change it has language about that long term obligation.

Trustee Douglas Faigin stated that he has two concerns about the process related to fees that are used in ways that are traditionally supported by tuition and fees that relate to long term tenure. He stated that tuition should be the role of the board, adding that the only difference between Category I and Category II fees are that one is for the entire system while the other is for individual campuses. However, he added that if the students wanted the fees then they should have them and the board should have oversight of the process with a final sign off by the administration.

The committee recommended approval for the Working Group on Category II Student Success Fee, (RFIN 01-15-01).

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

Mr. Steve Relyea, Executive Vice Chancellor and Chief Financial Officer, stated that this action item recommends the creation of the Student Involvement and Representation Fee (SIRF), a $2 per term voluntary fee to support the programs and operations of the California State Student Association (CSSA). The CSSA is the CSU's officially recognized statewide student body organization, and provides a collective voice for students to the trustees, chancellor, state government, and national stakeholders. CSSA is governed by a board of student leaders from the 23 Associated Students organizations, coordinating broad student involvement in policy-making and student leadership development. He stated that CSSA has proven to be an organization vital to the well-being and life of the university, providing representation on CSU committees, nominating student trustees, advocating in Sacramento and Washington, DC, and developing student programs.

He informed the board that CSSA has been a significant partner in the CSU's annual budget advocacy efforts. Last year CSSA encouraged legislators to "Stand with the CSU" and support additional resources for public higher education's most critical needs. In 2001, the trustees adopted the Student Participation in Policy Development statement. This statement established CSSA responsibility in both local and systemwide policy-making processes, and encouraged further student involvement at the systemwide level. CSSA is currently funded by a mixture of Associated Students membership dues and system allocations. He stated this proposal would create a new, central funding model that would enable CSU students to invest in their representative association directly and voluntarily.

Mr. Relyea added that CSSA's deliberations, research on similar models in other states, and development of strong outreach and communications strategies, indicate that this new funding model will provide a more stable and meaningful source of revenue to support statewide student leadership development and participation in policy-making. He stated that an affirmative vote on this item would direct the Chancellor's Office to add the additional fee category to the student financial system beginning in fall 2015, and provide a clear and unambiguous means for students to opt out of this fee. The revenue collected from the fees would be held in the Student Involvement and Representation Fund, and then expended by the CSSA Board of Directors with appropriate oversight.

He noted that nothing in the proposal would affect the composition of CSSA as a statewide student body organization and pointed out that this fee is unique and is supported by a stand-alone legal provision in the education code. Therefore, he stated the Board's approval of the proposal does not create precedence for the application of its voluntary nature to other CSU student fees. He then deferred to Mr. Devon Graves, Chair of the CSSA, to highlight the critical items that have been addressed since the March 2014 meeting.

Mr. Graves shared that the Chancellor's Office and CSSA felt it would be prudent to further review the statutory authority related to this fee policy, and in that review, determined that further clarification was needed from the state. This clarification was achieved through Assembly Bill 2736, signed by Governor Brown in September 2014. He added that CSSA also consulted with its student leaders and engaged student constituents on this proposal by allocating times at its monthly board meetings, beginning in July, to work through three primary elements of this proposal: communicating with students, ensuring accountability with regard to use of funds, and program planning and budgeting. With regard to communications, student leaders have focused on engaging their student bodies around the details of this proposal through student forums, discussion at student government meetings, and outreach and publicity through student and social media. He added that CSSA developed a comprehensive communications plan that includes individualized campus toolkits, which include messaging in hard-copy and digital content to be used to inform students as well as options not to pay this fee if they so choose. He indicated that with regard to accountability, the CSSA board has prepared revisions to its constitution and policies, which aim to ensure consistent representation from each campus Associated Students organization, and increased internal controls over use of funds.

Mr. Graves stated that CSSA's board is solely comprised of representatives from campus Associated Student bodies, which means that student leaders provide direction on all programs, budgets, and internal affairs. He highlighted some of the primary budget priorities which include; increased student participation with CSU initiatives, expanded grant funding for student-led sustainability projects, expanded funding for grassroots initiatives such as voter registration, budget education, and how to access financial aid and other resources, increased student advocacy training at the campus level, increased legislative visits between students and their legislators, and increased opportunities for student assistantships and internships. He concluded by stating that CSSA remains confident that this fee would expand CSSA's ability to coordinate additional student involvement in state, federal, and CSU system matters.

Mr. Relyea thanked Mr. Graves and added that together the CSSA and CSU have thoroughly considered the details of this proposal over the last ten months and feel that this is an appropriate new funding model that will provide CSSA with increased budget stability. He acknowledged that this proposal has required extensive involvement from many departments within the Chancellor's office.

Trustee Faigin asked if the Chancellor's contributions to CSSA would end if this were to be enacted. Chancellor White responded that was correct. Trustee Faigin stated that continued Chancellor's Office funding could be an inherent conflict. He further stated that this proposal is a good solution, and would like CSSA to report back to the board after a year to see how it went and see statistics on who declined to contribute the fee. He also asked about the ability for students to opt out of the fee and if the process would be clear. Mr. Graves responded that when a student registers for classes, the next step would be to verify their fees. The student would then have the option to opt out of that fee and could provide reasons why they chose to opt out.

Trustee Lawrence Norton asked how long this concept had been under consideration. Mr. Graves responded that the CSSA had been looking for a sustainable funding model for decades. Trustee Norton commended CSSA for the thoughtful and collaborative process and added that he looks forward to what they will bring before the Board. Trustee Eisen echoed Trustee Norton's comments and cautioned the board that while it is a good idea to collect information on who has chosen to opt out of the fee, they have to ensure privacy.

Trustee Glazer added that respective of what happens with the fee, the trustees and chancellor are committed to ensuring that student consultation continues. However, he is troubled with the proposal because of the precedence it would create. He stated that it is important to note that student governments receive a high level of funding. He stated that campuses could choose to give more money to CSSA in lieu of this fee. He stated that he is troubled with the conflict it could create within the student community and it may create unexpected consequences down the road.

Trustee Alexanian reiterated some of the great comments shared by students during the public comment period. She stated that CSSA is the only avenue for students from all campuses to meet regularly and discuss the issues that are pertinent to them, share best practices, and deliver perspectives on a variety of matters. She further added that since its creation, almost 57 years ago, CSSA has grown stronger, more effective, and now has an opportunity to ensure that students have their voices heard in perpetuity. She added that an area of CSSA she is particularly interested in is the work at the federal level, in the past several years CSSA's presence in Washington, DC has increased. By implementing the voluntary fee, it puts the decision making in the hands of individual students to choose to invest in their present and future. She stated it would help stabilize the organization, create creditability with policy makers, and engage more students. Trustee Alexanian stated that voting to approve SIRF would ensure that students both now and in the future have a voice in making decisions that would affect their lives. She asked the board to join her in their support of SIRF and in turn allow the half a million students in the CSU system access to opportunities to shape higher education policy and truly advocate for the needs of the CSU.

Trustee Monville stated he is truly supportive of CSSA and this item. Chancellor White stated that he commends SIRF because it promotes the agenda of quality, opportunity and success and creates increased opportunities for students to become leaders and have their voices heard. He added that it is complimentary with campus leadership opportunities. He added that CSSA and campus governance structures are effective organizations and that the CSU is at its best when it is student centered.

The committee recommended approval of the Policy on Voluntary Statewide Student Involvement and Representation Fee (SIRF) (RFIN 01-15-02).

Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for Projects at California State University Channel Islands and California State Polytechnic University, Pomona, ***Action Item***

Mr. Robert Eaton, Assistant Vice Chancellor for Financing, Treasury, and Risk Management stated that there were two projects approved earlier in the Committee on Campus, Planning, Buildings and Grounds for which financing is being requested. The financing would be done through the CSU's Systemwide Revenue Bond and Commercial Paper programs. The first project was the Dining Commons Expansion Project at the California State University Channel Islands campus. The requested not-to-exceed amount for this project was $12,420,000, based upon a project budget of just over $11.7 million and a reserve contribution of $750,000 from the campus housing program, which will operate the facility. The debt service coverage ratios for this project are good, exceeding the CSU benchmarks for both the campus and the program. Mr. Eaton stated that staff recommends approval of financing for the project as presented in the item.

The second project was the Parking Structure II Project at the California State Polytechnic University, Pomona campus. The requested not-to-exceed amount for this project was $38,640,000, based upon a project budget of just under $41 million and a reserve contribution of $6,000,000 from the campus parking program. The debt service coverage ratios for this project are good, exceeding the CSU benchmarks for both the campus and the program. He stated that staff also recommends approval of financing for the project as presented in the item.

The committee recommended Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for Projects at CSU Channel Islands and Cal Poly Pomona (RFIN 01-15-03).

Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for Systemwide Infrastructure Improvement Projects, *Action Item*

Mr. Robert Eaton stated this item requested financing approval for a variety of deferred maintenance and critical infrastructure projects through the CSU's Systemwide Revenue Bond and Commercial Paper programs in an amount not to exceed $180,000,000. He stated this request represented the first financing to take advantage of the CSU's new capital financing authorities approved by the board at its last meeting.

Mr. Eaton stated that the annual debt service on the long term financing for these projects would be met with the $10 million earmarked for deferred maintenance and critical infrastructure initially approved by the board in the CSU's final 2014-2015 support budget. The final amount of debt to be issued would be determined based upon interest rates at the time long term bonds are sold and the annual maximum debt service would not exceed $10 million. He added that while the new capital financing authorities allow the CSU to pledge any of the CSU's revenues, including general fund and student tuition fees, to support the financing of capital projects, this financing would be supported by the existing pledge of Systemwide Revenue Bond program gross revenues. He stated that as of June 30, 2014, pledged revenues of the Systemwide Revenue Bond program totaled approximately $1.6 billion and provided systemwide debt service coverage on existing Systemwide Revenue Bond debt of 1.65, which exceeded the CSU systemwide minimum benchmark of 1.45. Mr. Eaton added that when adjusting for this financing, the systemwide debt service coverage still remained strong and dropped just slightly to 1.63.

Ms. Elvyra San Juan, Assistant Vice Chancellor for Capital Planning, Design and Construction, then stated that the board approved the 2014-2015 State Funded Capital Outlay Program in November 2013. She added that the proposed priority list was presented in Attachment A of the item, and served as the basis to prioritize projects to be financed. She indicated that if interest rates are favorable, additional priorities could be funded. Adjustments would be made, in consultation with the affected campuses, to the final list of projects in order to maximize use of the limited financing resource.

Trustee Glazer expressed concerned about the precedent set by this approach and possibility that the amount borrowed would increase over time. Additionally, should there be a decrease in state funding in the future, the CSU may have to turn to student tuition to cover the debt service. He stated that that he would not vote in favor of this action item.

Trustee Faigin shared some of the same concerns as Trustee Glazer. He noted that the board is continuously asked to approve increases on spending but is not provided information on how the money is being allocated. He added that he would like to see the board focus on the fact that there is not enough funding for all of the CSU's priorities. Trustee García commented that the board needs to fund important work in order to meet the CSU's mission, however, would like to look at ways to be more efficient, discuss the status of the various initiatives that have already occurred, and continue to explore different revenue streams. Trustee Achtenberg asked Mr. Relyea if he could share information about cost cutting and saving measures.

Mr. Relyea responded that staff continuously looks for efficiencies and cost cutting opportunities. He informed the board that the CSU has launched a collaborative effort with the University of California and the California Community Colleges to drive down the cost of services, including technology and procurement. He stated that shared services are important and, as recent examples, he noted that the Chancellor's Office has moved its email system to CSU Fullerton and its travel system is supported by CSU Northridge. He stated that presidents are continuously making strategic choices on their campuses about how to optimize the resources that are provided. In addition, presidents are coming to staff with creative and thoughtful ideas of leveraging other resources on their campus. Ms. San Juan further added that staff also works hard with campuses in the area of facilities and water and energy conservation. She shared that there are campuses that are contracting with the same vendor. Mr. Relyea committed to return to the board with an update on strategies being pursued to streamline operations and reduce costs.

Trustee Faigin stated that he is impressed with the efficiencies going on and thinks this is exactly what should be occurring. He understands that staff is working hard and agreed with the idea that we need to increase and pursue additional funds. He added that he wanted to communicate a general concern of needing to dip into reserves to cover operational costs. He inquired about the possibility of reducing expenses in order to allow the funds received from the state to cover additional needs. He would like to consider using zero based budgeting. Mr. Relyea responded that the CSU is always assessing the needs of the campuses to ensure that students have the resources and tools to be successful. He stated that campuses are examining operations and determining where there is an opportunity to generate revenue to go towards capital projects. He added that the university is focused on future cost reductions and generation of revenue for capital projects and other high priority needs.

Chancellor White commended the trustees for their thoughtful questions and Mr. Relyea, the presidents, and their respective staff for their continued work. He added that the board serves as fiduciaries and while there is a range of opinions it has to balance the optimism of a better future with the current realities. He added that this is a difficult decision but asked the board to think about the interest of the CSU students, faculty, staff and communities.

Trustee Rebecca Eisen agreed with Chancellor White and thanked Trustee Glazer for reminding the board of the possible consequences in the future. She added that she would like to see a report about the creativity and the level of activity that goes into reducing costs and being more efficient. Trustee Achtenberg stated she would like to see an information item on this issue. Mr. Relyea indicated that an information item could be provided at the next meeting. Trustee Achtenberg noted to include some of the innovative activities occurring on campuses.

The committee recommended approval of Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for Systemwide Infrastructure Improvement Projects (RFIN 01-15-04). Trustee Glazer voted against the item.

Approval of the Final Development Agreement for a Commercial Office Facility on Real Property at California State University, Bakersfield, ***Action Item***

Mr. George Ashkar, Assistant Vice Chancellor/Controller for Financial Services, stated that this California State University, Bakersfield office facility project was approved earlier in the Committee on Campus Planning, Buildings and Grounds. He added that the project would be financed entirely by the developer and that the action item request before the trustees is for approval of the CSU to enter into a ground lease with the developer. He stated that the main terms of the ground lease would include two phases and provided details regarding the terms.

Trustee García inquired about the level of due diligence and potential for a conflict of interest when working on these types of partnerships. Mr. Ashkar responded that the CSU legal team is always involved and that in this particular case the developer has a long history with the campus and construction in the area. President Horace Mitchell responded that the developers were present and has a long track record in the city and the area in developing and managing offices. He also added that the developer is an alumnus of CSU Bakersfield.

Staff recommended approval of the Final Development Agreement for a Commercial Office Facility on Real Property at CSU Bakersfield (RFIN 01-15-05).

2015-2016 Support Budget Update, ***Information Item***

Mr. Ryan Storm, Assistant Vice Chancellor for Budget, stated the purpose of the presentation is to provide an update on the state's response to the CSU's Support Budget request. He indicated that he would focus his attention on the first major state action of this budget cycle, which is the Governor's Budget proposal that was issued in January. He stated that, as anticipated, the Governor proposed a $119.5 million state General Fund increase for the CSU. He added that it is consistent with the Governor's multi-year plan funding plan for CSU and the funding could be used for any of the CSU's most pressing needs. He stated that the Governor also proposed a one-time increase of $25 million to address CSU's most pressing maintenance and infrastructure needs. This money would not be conditioned upon state revenues reaching a certain level, as had been proposed in the past. Therefore, if the Senate and Assembly agree, these funds would be available to the CSU at the start of the fiscal year in July 2015.

He then moved on to discuss the Academic Sustainability Plan, approved by the board in November 2014. He added that state law requires the CSU to report on a number of student success measures, prepare a multi-year plan that would establish annual goals for the measure, and outline how the goals would be achieved. He added that the state budget also included a one-time $25 million allocation for the second year of the Awards for Innovation in Higher Education program. The purpose of the program is to identify and reward CSU and its partners in improving four-year graduation rates.

Mr. Storm then stated that in 2010, the state announced the closing of the Department of Developmental Services, Lanterman Developmental Center. The property consists of 120 buildings on 287 acres immediately adjoining part of the Cal Poly Pomona property. The state offered the property to all state departments and CSU expressed an interest in the transfer of the center to Cal Poly Pomona. The Governor's administration proposed the transfer of the property to the campus contingent on an agreement between the state and CSU that funding from the state would not be sought for the operation, maintenance, and development of the property, and that the CSU accommodate the needs of other state departments for a portion of the land in the area.

Mr. Storm stated there is a long way to go in the state budget development process. He indicated the Legislative Analyst's Office (LAO) would analyze the Governor's Budget proposal in more detail and issue reports through the end of February. The LAO, he added, indicated that there may be more state revenues at the end of this budget process than what is currently estimated and included in the Governor's proposal for 2015-2016.

Mr. Storm stated that over the coming months, budget hearings would be held by the Assembly and Senate to discuss these and other issues. By the mid May the Governor should release his May Revision, which is an effort to update revenue, caseload, and population estimates just prior to the beginning of the new fiscal year. He stated that between late May and early June the Assembly and Senate would finalize their decisions on the Governor's proposals as well as their own budget priorities. The CSU already has specific proposals and strong indications from Senate and Assembly Democrats that it is their desire to invest more in higher education. He stated it was encouraging news that an investment in higher education is a priority of the Governor, Assembly, and Senate leadership. He concluded with stating that CSU staff is committed to working with the Governor and Legislature through the budget process to ensure that the priorities of the trustee-approved support budget are met by the appropriate level of state support.

Trustee García inquired if any feedback would be provided regarding the Academic Sustainability Plan. Mr. Storm responded that they are not required to provide feedback but indicated that it is too early to tell what would come from that report.

CSU Investment Policy Review, ***Information Item***

Mr. Robert Eaton stated the purpose of this item was to provide the Board with information regarding an initiative to review the legislative authority and policies governing CSU's investments, as well as a review of the existing portfolio structure, with the goal of exploring ways the University might increase investment earnings without adding inappropriate risk to the CSU. He noted that this initiative covers funds of the CSU only and does not include auxiliary funds. He added that the new capital financing authorities and the need to address the CSU's deferred maintenance and critical infrastructure backlog has compelled staff to look for new sources of revenue. One such source of revenue is increased investment earnings. Presently, he stated, the CSU is restricted by statute to investing its funds in high quality, fixed income investments such as US Treasury securities, US Agency securities (Fannie Mae or Freddie Mac), or highly rated US Corporate bonds. He stated that in the long run, those types of fixed income investments generally have had lower returns compared to other investment options. He added that, at prior Board meetings, members of the Board have commented on the low investment returns on CSU funds. He added that staff agrees with this view.

Mr. Eaton stated that, as Ms. Zamarripa presented the previous day in the Committee on Governmental Relations, the first step in this initiative would be to propose changes to the legislation currently governing the CSU's investments in order to provide the CSU with greater investment flexibility and increase earnings on its existing base of funds. He added the goal is to provide the CSU with broader latitude in the types of investments it may use when investing its funds. For example, the University of California has the ability to invest its funds in equity securities and as a result earns significantly higher returns than the CSU. He stated that the broader investment authority is consistent with the goal of giving the CSU greater autonomy and responsibility in making decisions on how best to utilize its limited resources and manage risks in meeting its educational mission. This potential for higher investment returns would have a meaningful impact on the CSU's ability to address a variety of needs such as its ever-growing capital needs and thereby reduce the amount that may be sought from the state or students. He stated that staff plans to review the investment policy structure and propose appropriate policy revisions for the Board's consideration at a future meeting, followed by a restructuring of the CSU's investment portfolio.

Trustee Achtenberg stated that the CSU's returns have been quite low and assuming a very modest level of risk could yield better returns.

Trustee Glazer stated he is in support of the initiative but cautioned staff not to oversell the benefits of this initiative as a solution to CSU's capital needs. Mr. Relyea agreed and stated staff would keep his comments in mind.

Implementation of GASB Statement No. 68 Accounting and Financial Reporting for Pensions- An Amendment of GASB Statement No. 27, ***Information Item***

Mr. Steve Relyea, Executive Vice Chancellor and Chief Financial Officer, stated that this was an information item to provide the Board with background on a national accounting standard that would significantly impact how public universities, including CSU, would show pension liabilities on future financial statements. He then deferred to Mr. Ashkar to provide background on this new financial reporting standard.

Mr. Ashkar stated that this report related to an upcoming change in the accounting standards for Fiscal Year 2014-2015. He added that prior to GASB 68, CSU reported no pension liability in the financial statements, under the existing rule, as CSU made contractually required plan contributions. He stated that under GASB 68, employers need to report the net unfunded pension liability and other disclosures in their financial statements. The CSU's retirement plan is a cost-sharing multiple-employer defined benefit pension plan through CalPERS. The net unfunded pension liability information originates at CalPERS then it is sent to the SCO for various state agencies. The SCO, he added then allocates the pension liability among the state agencies participating in the state pool including the CSU. He stated that the CSU would allocate its proportionate share of the pension liability to the Chancellor's Office and 23 campuses for campus level financial reports.

Mr. Ashkar reiterated that the change would affect all public higher education institutions and stated that staff would return with more information after they receive the necessary data and meet with the State Controller's office.

Trustee Kimbell asked for clarification about how this will affect the financial reports. Mr. Ashkar responded that the financial statements could reflect a negative position where it had previously reflected a positive position. Mr. Relyea provided an example of having to record future mortgage payments in a checking account. Trustee Eisen thanked Mr. Relyea for the example and inquired about the real life impact. Mr. Relyea stated that all of the rating agencies are aware of this change and the initial thinking is that it would not affect the CSU's rating because it is not a current cost. Trustee Norton inquired about the purpose behind this change and the benefit that will result from it. Mr. Ashkar responded that he believes the thought was that this is a potential liability and putting it into a footnote was not adequate. He stated that he did not see a benefit to the CSU. He stated that this is not a one-time calculation; there will be a new calculation every year. Trustee García inquired about the impact it would have on the cost of debt. Mr. Ashkar responded it is possible for rating agencies to bring the CSU down a notch which would increase the cost to borrow money.

Trustee Eisen inquired if there was a chance this could be rescinded. Mr. Ashkar responded that he has not thought about that and has focused on the implementation process and what it means to the CSU. Trustee Monville encouraged the Finance Committee to bring options back to the board for discussion in the spring. Trustee Kimbell stated she thought this was a good change because it is a reminder of these liabilities and she does not believe the change will be an issue for the CSU.

COMMITTEE ON FINANCE

Approval to Issue Trustees of the California State University Systemwide Revenue Bonds and Related Debt Instruments for projects at California State University, Sacramento, California State University, Los Angeles, and California State University, Northridge

Presentation By

Robert Eaton
Assistant Vice Chancellor
Financing, Treasury, and Risk Management

Background

The Systemwide Revenue Bond (SRB) program provides capital financing for projects of the California State University – student housing, parking, student union, health center, continuing education facilities, certain auxiliary projects, and other projects approved by the CSU Board of Trustees. Revenues from these programs 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 resulted in strong credit ratings and low borrowing costs for the CSU. Prior to issuance of bonds, some projects are funded through bond anticipation notes (BANs) issued by the CSU in support of its commercial paper (CP) program. The BANs are provided to the CSU Institute, a recognized systemwide auxiliary organization, to secure the CSU Institute's issuance of CP, proceeds from which are used to fund the projects. CP notes provide greater financing flexibility and lower short-term borrowing costs during project construction than would be available with long term bond financing. Proceeds from the issuance of bonds are then used to retire outstanding CP and provide any additional funding not previously covered by CP.

Summary

This item requests the CSU 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 $70,800,000 to provide financing for one campus project and three auxiliary organization projects. The board is being asked to approve resolutions related to these financings. Long-term bonds will be part of a future SRB sale and are expected to bear the same ratings from Moody's Investors Service and Standard & Poor's as the existing SRBs.

The financing projects are as follows:

1. California State University, Sacramento Student Housing, Phase II

The California State University, Sacramento Student Housing, Phase II project was approved by the board for the amendment of the Capital Outlay Program in July 2014 and is being presented for approval of schematics during the March 2015 Committee on Campus Planning, Buildings and Grounds meeting. The project consists of a 400-bed housing facility (approximately 126,000 gross square feet) to be located at the northern end of the campus, adjacent to existing student housing. The project will include two wings, one with three stories for freshmen and one with four stories for sophomores. Additionally, it will include a large multipurpose room with communal kitchen, recreation, and laundry facilities, and an administrative office suite for housing and residential education. The campus received a positive recommendation for the project from the Housing Proposal Review Committee in May 2014.

The not-to-exceed par value of the proposed bonds is $50,200,000 and is based on a total project budget of $54,935,000 with a program reserve contribution of $11,326,000. Additional net financing costs, such as capitalized interest and cost of issuance (estimated at $6,591,000), are expected to be funded from bond proceeds. The project is scheduled to start construction in October 2015 with completion in April 2017.

The following table summarizes key information about this financing transaction.

Not-to-exceed amount	$50,200,000
Amortization	Approximately level over 30 years
Projected maximum annual debt service	$3,363,029
Projected debt service coverage including the new project: Net revenue – Sacramento pledged revenue programs: [1] Net revenue – Projected for the campus housing program:	 1.52 1.20

1. Based on campus projections of 2018-2019 operations of the project with 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 5.45 percent, reflective of adjusted market conditions plus 1.00 percent 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 housing program net revenue debt service coverage of 1.20 in 2018-2019, 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 1.52, which exceeds the CSU benchmark of 1.35 for the campus.

**2. California State University, Sacramento,
University Enterprises, Inc. — Auxiliary Organization Bond Refinancing**

University Enterprises, Inc. (the "Corporation"), a recognized auxiliary organization in good standing at CSU Sacramento, seeks board approval for the refinancing of the Corporation's existing standalone bonds through the SRB program. On March 9, 2015, the Corporation's board of directors adopted a resolution authorizing the refinancing of the auxiliary bonds through the SRB program.

The project will refinance $15,870,000 in total principal outstanding on the Corporation's Auxiliary Organization Refunding Revenue Bonds, Series 2005A (tax-exempt), which previously refinanced other Corporation bonds issued in 1995, 2001, and 2002. Proceeds from the original bonds were used to fund the construction of facilities to house operations of various campus academic programs, including continuing education.

The size of the proposed refinancing is at a not-to-exceed par amount of $15,160,000, and is estimated to generate a net present value savings of approximately $892,000, or 5.62 percent of the prior bonds. The not-to-exceed amount and the net present value savings are based on a current all-in true interest cost of 4.07 percent, which is reflective of market conditions plus a modest rate cushion for potential market rate increases prior to the issuance of the refinancing bonds, 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 Corporation's unrestricted revenues.

**3. California State University, Los Angeles,
Cal State L.A. University Auxiliary Services, Inc. — Commercial Loan Refinancing**

In May 2010, the board granted approval for Cal State L.A. University Auxiliary Services, Inc. (the "Corporation"), a recognized auxiliary organization in good standing at CSU Los Angeles, to borrow up to $2,350,000 from a commercial lending institution for the purpose of acquiring a certain property adjacent to the campus to provide the necessary space for academic programs in television, film and media studies (the "Project"). The Project is comprised of a two-story building with a high-bay multi-use room, classrooms, conference rooms, offices, and support space on 0.44 acres, and a two-level parking structure with 61 parking spaces on 0.39 acres. The Corporation acquired the Project at a total purchase price of $2,350,000, which was under the appraised value of $2,375,000, and leased the project to the campus.

In June 2010, the Corporation borrowed $2,232,500 from the Cal State L.A. Federal Credit Union. The loan has been amortizing over the past four years at an annual debt service of $181,000, and has a balance of $1,896,309 as of March 1, 2015. Payments on the loan have been made from the revenues generated from the lease to the campus. Refinancing of the loan will allow the Corporation to lower its cost of borrowing, and do so on a longer-term permanent financing basis consistent with the board approval in May 2010. On March 6, 2015, the board of directors of the Corporation adopted a resolution authorizing refinancing of the existing loan through the SRB program.

The bonds will be issued at a not-to-exceed par amount of $1,940,000 to refinance the existing loan balance plus accrued interest ($1,897,823) and additional net financing costs (estimated at $42,177). The bonds will be amortized on a level debt service schedule over 15 years, with maximum annual debt service of $177,925. The bonds will be secured by a general obligation pledge of the Corporation's unrestricted revenues, including lease and parking revenues generated by the Project.

The not-to-exceed amount and debt service on the bonds is based on an all-in interest cost of 4.58 percent, reflective of adjusted market conditions plus 1.00 percent as a cushion to account for any market fluctuations that could occur before the permanent financing bonds are sold. Based on the financial plan, in 2015-2016, the first full year of debt service repayment for the Project, the debt service coverage for the Project is 1.62 and the Corporation's overall debt service coverage is 1.50, compared with the CSU benchmark of 1.25 for both the project and auxiliary debt program. When combining the Project with 2013-2014 information for all campus pledged revenue programs and the campus' existing auxiliary debt program, the campus' overall debt service coverage is projected at 2.39 in 2015-2016, which exceeds the CSU benchmark of 1.35.

**4. California State University, Northridge,
The University Corporation—9324 Reseda Boulevard Building Acquisition**

The University Corporation (the "Corporation"), a recognized auxiliary organization in good standing at CSU Northridge, is seeking financing approval to fund the purchase of an off-campus real property, commonly known as 9324 Reseda Boulevard Building (the "Project"). The Project is an existing 2-story wood-framed office building containing 11,050 net rentable square feet and 37 parking spaces on 0.35 acres of land in the City of Northridge. The property was built in 1981 and was appraised at a fair market value of $2,600,000 as of November 11, 2014.

On November 18, 2014, the Corporation's board of directors adopted a resolution authorizing the acquisition and financing of the Project through the SRB program. On November 20, 2014, the Corporation entered into a purchase and sale agreement with a private seller to acquire the building at a total purchase price of $3,000,000, of which $400,000 in purchase premium will be funded internally through the Corporation's reserve and the remaining $2,600,000 financed externally through SRB. The Corporation's decision to pay higher than the appraised value was based on its long-standing goal of expanding its business presence within the desirable location on Reseda Boulevard. The purchase is subject to several contingencies, including approval by the CSU Board of Trustees for SRB financing. Escrow is scheduled to close on or before May 29, 2015.

The Project will provide long-term office leasing space for campus academic programs and short-term lease space to a technology incubator firm, as part of a three-year service agreement with the campus to promote collaborative research and internship opportunities among private industries within the business area, campus academic programs, and students. Upon the expiration of the private lease, the Corporation will lease the space on a long-term basis to the campus.

The total capital improvement cost associated with bringing the Project in compliance with CSU codes is estimated at $1,400,000, of which $800,000 will be funded through SRB financing and the remaining $600,000 through Corporation reserves. On January 23, 2015, Chancellor's Office staff approved a due diligence summary report performed by the Corporation and University that satisfactorily addressed certain code requirements for the proposed property acquisition.

The bonds will be issued on a tax-exempt basis at a not-to-exceed par amount of $3,500,000 to partially fund the Project's net purchase price ($2,600,000), a portion of the capital improvement costs ($800,000), and additional net financing costs such as capitalized interest and cost of issuance (estimated at $100,000). The bonds will be amortized on a level debt service schedule over 30 years, with maximum annual debt service of $233,253. The bonds will be secured by a general obligation pledge of the Corporation's unrestricted revenues, including rental and parking revenues generated by the Project.

The not-to-exceed amount and debt service on the bonds is based on an all-in interest cost of 5.36 percent, reflective of adjusted market conditions plus 1.00 percent as a cushion to account for any market fluctuations that could occur before the permanent financing bonds are sold. Based on the financial plan, in 2016-2017, the first full year of debt service repayment for the Project, the debt service coverage for the Project is 1.26 and the Corporation's overall debt service coverage is 4.70, compared with the CSU benchmark of 1.25 for both the project and auxiliary debt program. When combining the Project with 2013-2014 information for all campus pledged revenue programs and the campus' existing auxiliary debt program, the campus' overall debt service coverage is projected at 2.33 in 2016-2017, which exceeds the CSU benchmark of 1.35.

Trustee Resolutions and Recommended Action

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

1. Authorize the sale and issuance of Systemwide Revenue Bond Anticipation Notes and/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 $70,800,000 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 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 1 of the Committee on Finance at the March 24-25, 2015, meeting of the CSU Board of Trustees is recommended for:

California State University, Sacramento
Student Housing, Phase II

California State University, Sacramento
University Enterprises, Inc. — Auxiliary Organization Bond Refinancing

California State University, Los Angeles
Cal State L.A. University Auxiliary Services, Inc. —Commercial Loan Refinancing

California State University, Northridge
The University Corporation—9324 Reseda Boulevard Building Acquisition

COMMITTEE ON FINANCE

Conceptual Approval of a Public/Private Partnership Multi-Family Housing Development Project at California State University Channel Islands

Presentation By

George V. Ashkar
Assistant Vice Chancellor/Controller
Financial Services

Richard Rush
President
California State University Channel Islands

Summary of Request and Educational Benefits

California State University Channel Islands requests conceptual approval to pursue the first project of the CI 2025 strategy, which was presented to the CSU Board of Trustees in January 2015. Concept approval of this project will enable the development of the final phase of the University Glen residential community. CSU Channel Islands continues to seek alternative methods to build out the campus, including opportunities made available through the California State University Channel Islands Site Authority (Site Authority), as appropriate, by establishing public/private partnerships or public/public partnerships. Developing the CI 2025 strategy is vital to the academic mission of CSU Channel Islands as it aims to provide a comprehensive method to increase access to a growing student demand.

Background

CSU Channel Islands is the 23rd campus of the CSU. In 1998, the CSU Board of Trustees acquired the campus property. A portion of the property was leased to the Site Authority, where the University Glen residential community is located.

Unlike more developed CSU campuses, Channel Islands is challenged to build critically needed facilities to accommodate enrollment expansion. Costs to transform the property for university purposes continue to increase and state capital facility funds are increasingly constrained. Therefore, alternative ways to fund and build academic and student support facilities for a growing student population are needed.

Project Description – CI 2025 Strategy – Rental Housing

To garner greater interest from possible developers, the campus is proposing two areas for possible development of rental housing. The primary area was originally slated for the construction of 242 for-sale units at the University Glen residential development. Known as Phase 2A/B, it was halted due to the housing market crash. The second area is currently used for surface parking adjacent to the existing Town Center mixed-use facility which consists of apartments, retail and office space.

University Glen currently comprises 658 units. Town Center currently includes 58 apartments and 30,000 square feet of retail space. It is proposed that the Site Authority enter into a public/private partnership for the development, construction, and operation of roughly 590 additional units at University Glen and 100 additional apartments for the Town Center. As part of the outreach process with the University Glen community, the campus held an open forum on February 18, 2015 to share the concept plan with the residents and obtain feedback. It is anticipated additional meetings will be held during the development plan process to hear any community concerns and proactively work to develop a project in consultation with an engaged community.

Budget and Financing

The Site Authority anticipates it will enter into a ground lease on the project site with a private developer, at a value to be determined, which will be responsible for the financing, construction, and management of the property during the term of the sublease. The Site Authority will require the developer to fund all costs associated with the environmental and entitlement processes in accordance with CSU requirements. Neither the campus nor the Site Authority will have an investment in the project, with the developer providing 100% financing. The Site Authority will ensure that the facilities revert to the Site Authority upon the agreement’s expiration.

Existing Site Authority Debt

In total, the Site Authority has current outstanding Systemwide Revenue Bond debt totaling approximately $196.4 million with 2014 annual debt service of $11.6 million for the initial phase of University Glen and Broom Library, rising thereafter. Current revenues generated by the Site Authority from apartment rental operations, tax increment, home resale transaction fees, and cogeneration plant revenues are insufficient to pay the escalating annual Site Authority debt service obligations, requiring financial contributions from the Chancellor’s Office. The development of this project, with the expected lease payments under the ground lease, would provide additional revenues to help meet Site Authority debt service.

Approval of the Final Development Plan

Per board policy, as the project moves forward, all related master plan revisions, amendments of the capital outlay program, 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 presented 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 an apartment development and the release of the Request for Qualifications / Proposals to pursue the first project of CI 2025;
>
> 2. Authorize the chancellor and the Site Authority to enter into negotiations for agreements as necessary to develop a final plan as explained in Agenda Item 2 of the March 24-25, 2015 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 Site Authority and a developer with the advice of the chancellor;
>   c) Approval of any amendments to the campus master plan and the Site Authority Specific Reuse 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.

THE CALIFORNIA STATE UNIVERSITY

OFFICE OF THE CHANCELLOR

BAKERSFIELD
CHANNEL ISLANDS
CHICO
DOMINGUEZ HILLS
EAST BAY
FRESNO
FULLERTON
HUMBOLDT
LONG BEACH
LOS ANGELES
MARITIME ACADEMY
MONTEREY BAY
NORTHRIDGE
POMONA
SACRAMENTO
SAN BERNARDINO
SAN DIEGO
SAN FRANCISCO
SAN JOSÉ
SAN LUIS OBISPO
SAN MARCOS
SONOMA
STANISLAUS

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

401 GOLDEN SHORE • LONG BEACH, CALIFORNIA 90802-4210 • (562) 951-4700 • Fax (562) 951-4986 • creed@calstate.edu

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

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

Section 1: General Policies Regarding Financing Activities of the CSU

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

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

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

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

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

Section 2: Definitions

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

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

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

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

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

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

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

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

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

Section 3: Systemwide Revenue Bond Program (SRB)

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

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

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

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

3.4 Auxiliary Organization Projects: Except as indicated in Section 1.3, 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

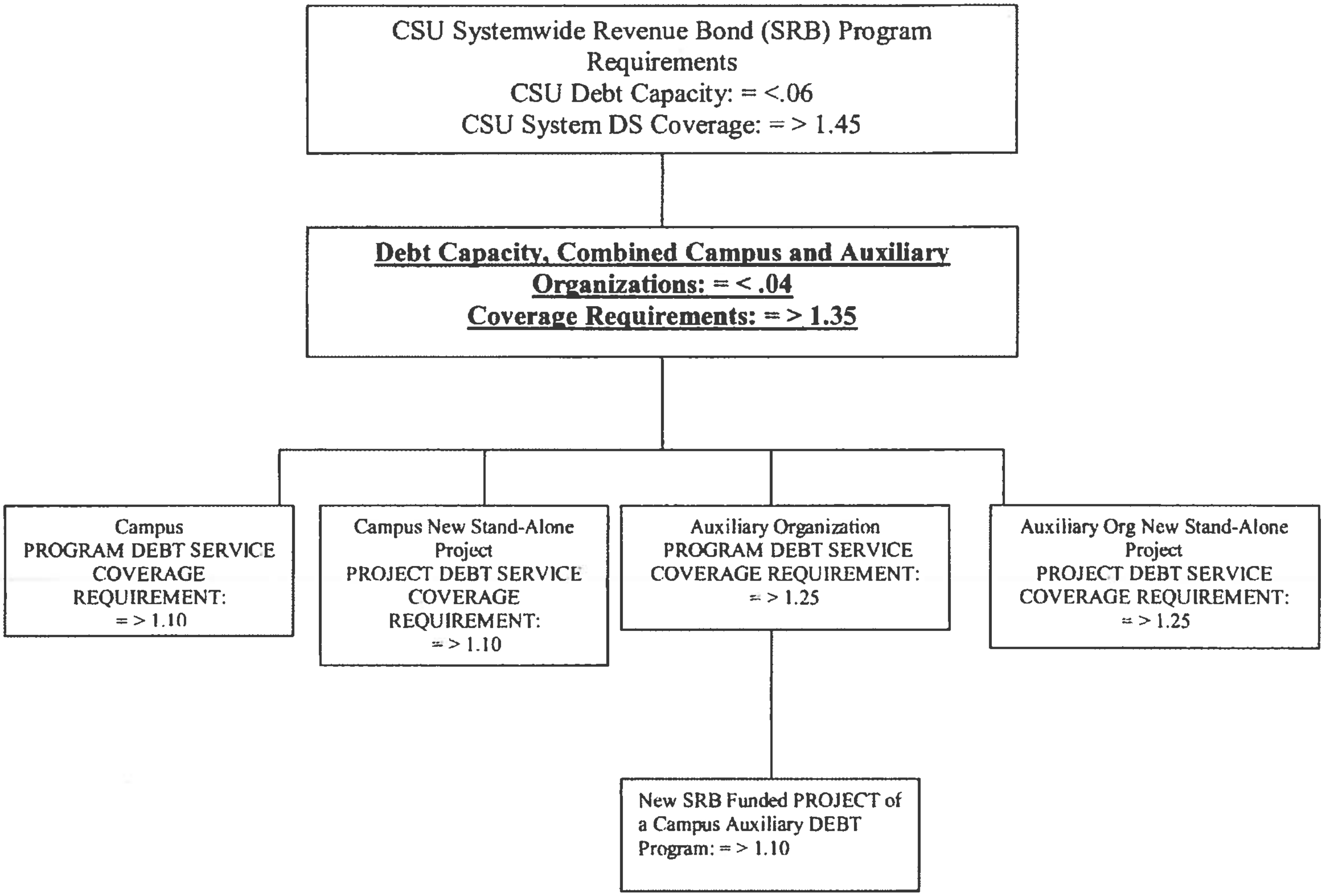
7.2 Reserve Review: At a minimum of once every three years, each campus shall conduct an in-depth review to assess the adequacy of the reserves and the campus reserve policies applicable to the projects funded by debt, and shall make necessary adjustments and changes to account for changing conditions.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

CSU Policy for Financing Activities
Board of Trustees' Resolution
RFIN/CPBG 11-14-01

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 recognizes the capital needs of the CSU require the optimal use of all revenues to support its academic mission; 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 or restructurings; and

WHEREAS, The Board finds it appropriate 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 (1947 Bond Act) and Education Code Sections 89770-89774 (EC 89770-89774) (collectively, the "CSU Bond Acts") provide the Board of Trustees with the ability to acquire, construct, finance, 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 CSU Bond Acts shall be managed by the Chancellor, to the greatest extent possible, to credit rating standards in the "A" category, at minimum.

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 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 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 Structure of the CSU's Debt Programs

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 CSU Bond Acts in conjunction with the respective authority of the Trustees to collect and pledge revenues.

Other on-campus and off-campus projects, including academic and infrastructure support projects, will also be financed through this structure under the authority of the CSU Bond Acts, unless there are compelling reasons why a project could not or should not be financed through this structure (see Section 3 below).

2.2 The Chancellor is hereby authorized to determine which revenues may be added to the broad systemwide multi-source revenue pledge under the authority granted by the CSU Bond Acts, to determine when such revenues may be added, and to take appropriate action to cause such additional revenues to be pledged to CSU debt in accordance with the CSU Bond Acts.

2.3 The Chancellor shall establish minimum debt service coverage and other requirements for financing transactions undertaken under the CSU Bond Acts 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.

2.4 The Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Deputy Assistant Vice Chancellor for Financing, Treasury, and Risk Management, 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 issue bonds pursuant to the CSU Bond Acts to acquire or construct projects. Authorized Representatives of the Trustees, with the advice of the General Counsel, 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 financing transactions.

2.5 The Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Deputy Assistant Vice Chancellor for Financing, Treasury, and Risk Management, 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 CSU Bond Acts. Authorized Representatives of the Trustees, with the advice of the General Counsel, 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 for, or are inappropriate for financing under the CSU Bond Acts. 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 CSU Bond Acts 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 Deputy Assistant Vice Chancellor for Financing, Treasury, and Risk Management, 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 Deputy Assistant Vice Chancellor for Financing, Treasury, and Risk Management, and Assistant Vice Chancellor for Capital Planning, Design and Construction 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 Deputy Assistant Vice Chancellor for Financing, Treasury, and Risk Management, 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 supersedes RFIN 03-02-02 and shall take effect immediately.

COMMITTEE ON FINANCE

California State University Annual Debt Report

Presentation By

Robert Eaton
Assistant Vice Chancellor
Financing, Treasury, and Risk Management

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 for campuses. In October 2006, the chancellor issued Executive Order 994, which refined and superseded Executive Order 876. In November 2014, the board again amended the CSU Policy on Financing Activities (RFIN/CPBG 11-14-01) in response to State legislation passed in June 2014 that affected the CSU's capital financing programs and authorities. Executive Order 994 and the CSU Policy on Financing Activities RFIN/CPBG 11-14-01 are included herein as Attachments A and B, respectively.

The SRB program has traditionally provided 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 resulted in strong credit ratings and low borrowing costs for the CSU.

SRB Portfolio Profile

As of June 30, 2014 and December 31, 2014, the outstanding SRB debt of the CSU was approximately $3,507,000,000 and approximately $3,688,000,000, 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:	4.32%
Weighted Average Maturity:	13.8 Years
Interest Rate Mix:	100% Fixed Rate

SRB Operating Performance and Debt Service Coverage Ratios

For the fiscal years ended June 30, 2012, June 30, 2013, and June 30, 2014, operating performance and debt service coverage ratios for the SRB program were as follows (amounts in millions):

	June 30, 2012	June 30, 2013	June 30, 2014
Operating Revenues	$1,375	$1,475	$1,571
Operating Expenses	981	1,058	1,122
Net Revenues	394	417	449
Annual Debt Service	226	243	259
Debt Service Coverage[1]	**1.74**	**1.72**	**1.73**

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

2014A SRB Issuance

In August 2014, the CSU issued $747,740,000 of SRBs. Of this amount, $307,430,000 was issued for new money projects at an all-in true interest cost of 3.90%. The CSU also took advantage of low interest rates and issued $440,310,000 in bonds to refund existing SRB and auxiliary debt, producing net present value savings of $52.9 million, or 11% of the refunded bonds. The refunding of debt will save SRB programs across the system approximately $3 million in combined cash flow per year.

COMMITTEE ON FINANCE

Update on Administrative Efficiency Initiatives

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Summary

The California State University challenges itself to become an organization that seeks to continuously evaluate and improve its effectiveness and efficiency, and reviews its business processes that support the academic mission. Such efforts include exploring and implementing strategic procurement, simplifying and streamlining administrative processes, and organizing services in order to meet increasing workload associated with campus growth and compliance.