AGENDA

COMMITTEE ON FINANCE

Meeting: **2:15 p.m., Tuesday, May 23, 2017**
Glenn S. Dumke Auditorium

Peter J. Taylor, Chair
Debra S. Farar, Vice Chair
Jane W. Carney
Adam Day
Jean P. Firstenberg
Hugo N. Morales
Lateefah Simon

Consent Items

Approval of Minutes of the Meeting of March 22, 2017

1. Appointment of Three Members to the Fullerton Arboretum Commission, *Action*
2. Approval to Issue Trustees of the California State University Systemwide Revenue Bonds and Related Debt Instruments for Projects at California State University, Los Angeles and San Diego State University, *Action*

Discussion Items

3. Final Approval of a Public-Private Partnership with the Los Angeles Football Club to Develop a Practice Facility at California State University, Los Angeles, *Action*
4. Final Approval of a Public-Private Partnership Mixed-Use Development Project at San Francisco State University, *Action*
5. Report on the 2017-2018 Support Budget, *Information*

MINUTES OF THE MEETING OF THE COMMITTEE ON FINANCE

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

March 22, 2017

Members Present

Peter J. Taylor, Chair
Debra S. Farar, Vice Chair
Jane W. Carney
Adam Day
Jean P. Firstenberg
Lateefah Simon
Rebecca D. Eisen, Chair of the Board
Timothy P. White, Chancellor

Trustee Peter Taylor called the meeting to order.

Public Comments

Public comment provided by several California State University (CSU) students, faculty, and staff, against the tuition increase proposal included issues with financial hardships faced by current CSU students, increasing loan debt, and inability to take on additional education costs. Impacts of a tuition increase on students were also shared and included taking on additional work hours to be able to afford tuition, applying for more loans, and possibly having to drop-out or take less classes.

Approval of Minutes

The minutes of the January 31, 2017 meeting were approved as submitted.

California State University Annual Debt Report

Trustee Taylor presented agenda item one as a consent information item.

Report on Risk Management at the California State University

Executive Vice Chancellor and Chief Financial Officer Steve Relyea and Assistant Vice Chancellor, Financing, Treasury, and Risk Management Robert Eaton provided a report of the CSU's Risk Management Authority (CSURMA) program, its membership, available insurance programs, and financial structure. The program is run by Alliant Insurance Services with oversight by the Chancellor's Office Risk Management department. A Request for Proposal (RFP) for the management of the insurance program is done every five years, with the last RFP in 2013. The CSU is currently evaluating the use of a captive insurance option, including partnering with the University of California (UC), which utilizes a captive insurance program.

Trustee Taylor asked about loss control programs and initiatives on campuses. Mr. Dan Howell, Senior Executive Vice President of Alliant Insurance Services, Inc. responded that on a systemwide basis there are resources available to all campuses that are paid for by the CSURMA program such as funding for systemwide public safety training and equipment. CSURMA also offers $250,000 in grants that campuses may apply for, for specific purposes. Through the sharing of best practices and training, loss prevention efforts have yielded cost savings that allowed CSURMA to return funds to campuses. Premium amounts are determined by a number of anticipated factors, including projected claims for the following year and retention amounts.

Mr. Howell shared that the CSURMA executive committee establishes reserve targets using information from actuarial studies performed independently by a third party. Trustee Taylor commented that models such as the UC's captive insurance program can facilitate the cross-collateralization of funds and eliminate the need for inter-fund borrowing.

Conceptual Approval of a Public-Private Partnership to Develop an Extended Learning and Student Services Project on Real Property Adjacent to California State University, San Marcos

President Karen Haynes shared that a study was conducted by the CSU San Marcos campus that indicates additional space will be needed to accommodate continued enrollment demand. However, given the topography of the campus land, area available for construction is very limited and would be costly to develop. The proposed project will provide the opportunity to expand the campus footprint, relocate the extended learning programs, and free-up space on campus by constructing on privately owned land. Mr. Robert Eaton explained the project financial and operational structure. Further actions on the project development will return to the board for approval.

In response to Trustee questions, Eaton noted that the land was recently appraised at $8 million dollars. The financing structure will be based upon CSU credit, but how much will depend on the terms of the agreement and will need to be balanced to minimize risk to the CSU credit. At the end of the initial 30 year lease agreement all academic space will be owned by campus, the retail space will be owned by the developer, and each will own a prorata share of the common areas. The campus, with advice from General Counsel and Chancellor's Office staff, will review the agreement to ensure that the types of businesses allowed to rent on site are consistent with the campus mission.

The committee recommended approval of the proposed resolution (RFIN 03-17-02).

Tuition Increase Proposal for the 2017-2018 Academic Year

Chancellor Timothy P. White expressed gratitude to the public speakers for sharing their comments and asked them to also voice their concerns to the legislature. He explained why funding the CSU is important to ensuring an educated citizenry.

Assistant Vice Chancellor for Budget Ryan Storm summarized the public comments received through the tuition proposal website. Commonly submitted comments were in the areas of affordability, extended time to degree, the potential for increased student debt, accountability, and need for state funding.

Mr. Storm stressed that the CSU's first priority is to advocate for full funding from the state. Without full support, several needs will go unfunded, such as Graduation Initiative 2025, enrollment increases, infrastructure improvements, and employee compensation increases for represented employees with open contracts in 2017-2018 and non-represented employees. Trustee Taylor acknowledged the decision to increase tuition was difficult and hoped that the state would step up and provide the requested funding.

Trustee Debra Farar asked if the tuition increase could be rescinded in the event that the governor provided full funding, and Mr. Relyea responded affirmatively. If the tuition increase was not approved and the governor did not provide the requested additional funding, it would only be possible to cover existing compensation costs and a portion of mandatory costs. This would mean no new investment in the student success initiatives of Graduation Initiative 2025, infrastructure, and other CSU budget priorities.

Trustee Jane Carney requested that the proposed resolution be amended to: 1) automatically rescind the tuition increase if full funding of the support budget request is provided by the state, and 2) limit the use of revenue from the tuition increase to things that directly benefit students. In addition, Trustee Carney requested annual accountability reports to the board, on the use of tuition funds, for the next two years.

Chancellor White informed the board that action on the tuition increase was needed at this meeting because the Working Families Student Fee Transparency and Accountability Act requires a 90 day minimum advance notice to students and their families between the approval of a tuition increase and the start of fall 2017 classes.

The committee recommended approval of the proposed resolution, as amended (RFIN 03-17-03).

Trustee Taylor adjourned the meeting on Finance Committee.

COMMITTEE ON FINANCE

Appointment of Three Members to the Fullerton Arboretum Commission

Presentation By

Framroze Virjee
Executive Vice Chancellor and General Counsel

Summary

It is proposed that the California State University Board of Trustees appoint three members to the Fullerton Arboretum Commission.

Background

The Board of Trustees approved the Joint Exercise of Powers Agreement with the Redevelopment Agency of the City of Fullerton in March of 1976, creating the Fullerton Arboretum Authority. Under that agreement, the trustees are authorized to appoint three members to the Fullerton Arboretum Commission, each for a term of for four years.

Three appointments by the trustees are now due and CSU Fullerton President Mildred García recommends the appointment of:

1. Dr. Anil Puri, Interim Provost and Vice President for Academic Affairs, CSU Fullerton,
2. Mr. Greg Saks, Vice President for University Advancement, CSU Fullerton, and
3. Mr. Frank Mumford, Executive Director, CSU Fullerton Auxiliary Services Corporation

All will serve until the Fullerton Arboretum Authority Agreement expires on December 3, 2020, unless they leave their current administrative positions. Should the appointees leave their current positions prior to December 3, 2020, the president of the CSU Fullerton campus will be authorized make further appointments to replace them.

Recommendation

The following resolutions is presented for approval:

> **RESOLVED**, By the Board of Trustees of the California State University, that the following appointments are made to the Fullerton Arboretum Commission effective immediately:
>
> Dr. Anil Puri, currently serving as the Interim Provost, CSU Fullerton, is appointed Commissioner of the Fullerton Arboretum until December 3, 2020.

Mr. Greg Saks, currently serving as the Vice President, University Advancement, CSU Fullerton, is appointed Commissioner of the Fullerton Arboretum Authority until December 3, 2020.

Mr. Frank Mumford, currently serving as the Executive Director, CSU Fullerton Auxiliary Services Corporation, is appointed Commissioner of the Fullerton Arboretum Authority until December 3, 2020.

RESOLVED, By the Board of Trustees of the California State University, that

Should appointees Puri, Saks and Mumford leave their current positions of employment prior to December 3, 2020, the campus president of CSU Fullerton is authorized to make replacement appointments without further need for Board of Trustees approval.

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, Los Angeles and San Diego State University

Presentation By

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

Summary

This item requests the California State University Board of Trustees to authorize the issuance of long term Systemwide Revenue Bond (SRB) financing and related debt instruments, including bond anticipation notes (BANs) to support interim financing under the commercial paper (CP) program in an aggregate amount not-to-exceed $30,150,000 to provide financing for two campus projects:

1. California State University, Los Angeles – Cal State L.A. University Auxiliary Services, Inc. Rongxiang Xu Bioscience Innovation Center
2. San Diego State University Tula/Tenochca Replacement

The trustees are being asked to approve resolutions related to these financings.

Background

The SRB program provides capital financing for projects of the CSU – student housing, parking, student union, health center, continuing education facilities, certain auxiliary projects, and other projects, including academic facilities, approved by the CSU Board of Trustees. Revenues from these programs and revenues approved by the board, including CSU operating funds, are used to meet operational requirements for the projects and 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 lower borrowing costs for the CSU. Prior to issuance of bonds, some projects are financed with BANs issued by the CSU in support of its CP program. The BANs are provided to the CSU Institute, a recognized systemwide auxiliary organization, to secure the CSU Institute's issuance of CP used to finance the projects. CP notes provide greater financing flexibility and lower short-term borrowing costs during construction than long-term bond financing. Proceeds from the issuance of bonds are then used to retire outstanding CP and finance any additional costs not previously covered by CP. Long-term bonds will be part of a future SRB issuance and are expected to bear the same ratings from Moody's Investors Service and S&P Global Ratings as the existing SRB series.

1. California State University, Los Angeles – Cal State L.A. University Auxiliary Services, Inc. Rongxiang Xu Bioscience Innovation Center

At their November 2015 meeting, the CSU Board of Trustees approved schematic plans for the construction of a new two-story 20,750 gross square foot building providing wet and dry laboratories, offices, and shared office space and conference rooms, commonly known as Rongxiang Xu Bioscience Innovation Center. The project will also lease space to bioscience incubators, start-ups, and entrepreneurs in connection with its partnership with Los Angeles County to promote growth of bioscience related research and development and manufacturing enterprises in East Los Angeles, as well as support economic, workforce, and infrastructure development in the area.

Construction is expected to commence in August 2017 and be completed by October 2018. The project will be owned and operated by Cal State L.A. University Auxiliary Services, Inc. ("UAS"), a recognized auxiliary organization at California State University, Los Angeles.

The total project cost is estimated to be $15,100,000, and will be funded through $5,000,000 in private donor contributions, $2,500,000 in grant funding from the County of Los Angeles, $3,087,676 in grant funding from the U.S. Economic Development Administration, and a not-to-exceed par amount of $4,980,000 financed by taxable Systemwide Revenue Bonds. A portion of the bonds will also fund approximately $468,000 in additional net financing costs for capitalized interest and issuance costs. The bonds will be secured by a general obligation pledge of the auxiliary's unrestricted revenues, including rental receipts from the project.

The following table summarizes key information about this financing transaction.

Not-to-exceed amount	$4,980,000
Amortization	Approximately level debt service over 30 years
Projected maximum annual debt service	$356,699
Projected debt service coverage including the new project:	
Net revenue – Los Angeles pledged revenue programs: [1]	1.84
Net revenue – Projected for UAS:	1.81
Net revenue – Projected for Bioscience Innovation Center:	1.31

1. Based on campus projections of 2019-2020 operations of the project with expected full debt service.

The not-to-exceed amount for the project, the maximum annual debt service, and the ratios are based on an all-in interest cost of 6.11 percent, reflecting taxable rates and 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. Based on the financial plan, minimum debt service coverage is projected to be 1.31 for the project in 2019-20, the first full year of operations, and 1.81 for UAS, exceeding the CSU benchmark of

1.25 for both the project and total auxiliary debt. When combining the project with projected 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 1.84, exceeding the CSU campus benchmark of 1.35.

2. San Diego State University Tula/Tenochca Replacement

The San Diego State University Tula/Tenochca Replacement project is being presented for amendment of the Capital Outlay program and schematics at the May 23-24, 2017, meeting of the Committee on Campus Planning, Buildings and Grounds. The project includes demolition of the existing Tula/Tenochca conference center and community space and construction of a new one-story Tula Conference Center for the campus community and a two-story Tula Community Space that will replace front desk/security, social and program space for the Tula Residence Hall. The project, including the repayment of related financing obligations, will be funded from the rental housing fees under the housing program.

The not-to-exceed par amount of the proposed bonds is $25,170,000 and is based on a total budget of $24,000,000 with a contribution of $1 million from the housing program. Additional net financing costs, such as capitalized interest and cost of issuance, estimated at $2,170,000, are to be funded from bond proceeds. The project is scheduled to start construction in August 2017 with completion expected in August 2018.

The following table summarizes key information about this financing transaction.

Not-to-exceed amount	$25,170,000
Amortization	Approximately level debt service over 30 years
Projected maximum annual debt service	$1,646,098
Projected debt service coverage including the new project:	
Net revenue – San Diego pledged revenue programs: [1]	1.52
Net revenue – Projected for the campus housing program:	1.47

1. Based on campus projections of 2019-2020 operations of the project with expected full debt service.

The not-to-exceed amount for the project, the maximum annual debt service, and the ratios are based on an all-in interest cost of 5.24 percent, inclusive of a cushion for changing financial market conditions that could occur before the permanent financing bonds are sold. The financial plan includes level amortization of debt service, which is the CSU program standard. The campus financial plan projects a housing program net revenue debt service coverage of 1.47 in 2019-2020, the first full year of operations, which exceeds the CSU benchmark of 1.10 for the program. When combining the project with projected 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 a campus.

Trustee Resolutions and Recommendation

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 $30,150,000 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 2 of the Committee on Finance at the May 23-24, 2017, meeting of the CSU Board of Trustees is recommended for:

California State University, Los Angeles – Cal State L.A. University Auxiliary Services, Inc. Rongxiang Xu Bioscience Innovation Center

San Diego State University Tula/Tenochca Replacement

COMMITTEE ON FINANCE

Final Approval of a Public-Private Partnership with the Los Angeles Football Club to Develop a Practice Facility at California State University, Los Angeles

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

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

William A. Covino
President
California State University, Los Angeles

Summary

At its November 2016 meeting, the California State University Board of Trustees approved a conceptual plan for the development of a practice facility for the Los Angeles Football Club (LAFC) at California State University, Los Angeles. This item requests final approval from the board authorizing the campus to enter into a ground lease and final development agreements with the LAFC.

Background

The campus has been presented with a public-private partnership opportunity as a result of an expansion plan for a new Major League Soccer (MLS) franchise in Los Angeles. LAFC, the new MLS franchise founded in 2014, is constructing a new 22,000-seat open-air stadium on the former site of the Los Angeles Memorial Sports Arena in downtown Los Angeles, which is set to be completed in 2018 in time for the team’s professional debut. In addition to the new stadium, LAFC is also looking at a nearby site at Cal State LA to construct a new sports performance facility and soccer field for the team’s regular training and practice. Additionally, the proposed facility will also be made available for the LAFC Youth Academy, a community-focused program sponsored by the LAFC Sports Foundation, a non-profit affiliate of LAFC, and offered to young soccer players within the local communities.

Project Description

The project proposes construction of one natural grass professional-sized soccer field and a new practice training facility built on a four acre site along the northern portion of the campus. The site is situated near student housing and Cal State LA's north entrance on East Valley Boulevard. The project will include a 30,000 gross square foot building housing facilities for sports medicine, nutrition, training, and education. The project will provide additional usable land for the campus by transforming the existing topography of the site. The cost of the project is currently estimated at approximately $26 million.

Summary of Key Agreement Terms

- Initial ground lease term of ten years with the LAFC, with provisions for two additional ten-year extensions at LAFC's option.
- Annual ground lease rental income from LAFC to the campus starting at $275,000 and increasing annually at the rate of growth of the Consumer Price Index.
- LAFC will provide funding to maintain and repair the existing campus athletic field, estimated at $110,000 per year for the duration of the ground lease term.
- LAFC made a contribution of $100,000 to the campus in September 2016 in support of campus athletic programs. LAFC will make additional financial contributions of $1,500,000, consisting of $1,000,000 in cash and $500,000 in funding to renovate the campus athletic track and fields.
- Revenues from conferences and sporting events, estimated at $50,000 to $100,000 per year.
- Five percent of revenues from onsite naming rights and sponsorship, estimated at $50,000 to $75,000 per year.
- Shared use of the facilities for campus activities and students on a scheduled basis.

The ground lease rental income and other financial payments from LAFC cover the fair market value of the site. LAFC will be responsible for financing, constructing, operating, and maintaining the facility in good condition during the term of the lease. No campus funds will be committed to the project and the site development will revert to the campus upon termination of the lease.

Educational Benefits

The long-term partnership with LAFC will help support the academic mission of the campus on several fronts. The presence of the LAFC sports organization and its sports facility on campus has already provided academic departments such as the School of Kinesiology and Nutritional Science and its students with hands-on learning experience through direct research, scholarship, internship, and job opportunities. In addition, the LAFC partnership will allow Cal State LA to complete the development of a Sports Management degree program by providing important resources, including the use of the state-of-the-art facility by campus student athletes, to advance campus athletic and educational goals. Through shared use of the sports facility, the campus will be able to enhance its fundraising and summer programs, including youth programs, by hosting revenue-generating activities, such as sports camps and campus sponsored athletic and community engagement events. The new regulation-sized, low-maintenance stadium field will enable Cal State LA to host conference championship games and tournaments, an opportunity unavailable to the campus because the current field does not meet minimum specifications.

The LAFC partnership is also an opportunity to effectuate positive social and economic gains. The development partnership presents an opportunity to enhance the quality of life and safety for the northern portion of campus near university student housing and the child care center by transforming blighted property near the gateway to the campus—a shared goal of the university, area residents, local businesses, and elected officials representing the area. Also, through monetization of its land, the campus stands to gain from the fair market returns on the ground lease and other revenues and various form of financial contributions by LAFC.

Recommendation

The following resolution is presented for approval:

> **RESOLVED**, by the Board of Trustees of the California State University, that the development of a practice facility for the Los Angeles Football Club, through a public-private partnership, on the campus of California State University, Los Angeles as described in Agenda Item 3 of the May 23-24, 2017 meeting of the Committee on Finance is approved, and that the chancellor, the executive vice chancellor and chief financial officer, and their designees are authorized to execute the agreements necessary to complete the transaction.

COMMITTEE ON FINANCE

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

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

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

Leslie E. Wong
President
San Francisco State University

Summary

At its March 2014 meeting, the California State University Board of Trustees approved a conceptual plan for the development of a mixed-use student housing project at San Francisco State University. This item requests final approval from the board authorizing the campus, through the University Corporation, San Francisco State ("UCorp"), a recognized campus auxiliary organization, to enter into a ground lease and final development agreements with the private development team.

Background

In May 2015, the campus and UCorp invited four qualified teams to respond to a request for proposals. Three teams ultimately submitted responses, which were vetted by a campus-wide committee comprised of students, faculty, staff, and administrators, as well as colleagues from the Chancellor's Office. The committee conducted a comprehensive review and in May 2016, based upon unanimous recommendation from the committee, the campus selected Pacific Union Development Company (PUDC) and Capstone Development Partners (Capstone), a team with extensive experience in student housing, real estate development, public private partnerships, and retail and residential operations. PUDC and Capstone will work with an equity partner, anticipated to be Harrison Street Real Estate Capital or another comparably qualified firm, to form a limited liability company ("HPLLC") to finance, build, own and operate the facility. HPLLC, UCorp, and the campus have negotiated the key business terms subject to final approval by the board.

This development team was selected because of its market presence in the Bay Area and strong expertise in mixed-use development and student housing management, which the campus hopes will help fulfill a critical component of its master plan in revitalizing and transforming an underutilized section of the campus into a key campus entry point, a commercial corridor, and a place capable of activating the campus.

Project Description

The project is a mixed-use student housing community constructed on a site that is currently part of University Park South, a campus housing facility located on Holloway Avenue in the southeastern corner of the campus. The project will be approximately 217,000 gross square feet (GSF) with 136 apartment-style units comprising a total of 516 beds. The project includes 36,500 GSF of ground floor and plaza level retail space and various residential support spaces, 50 parking spaces, and bicycle parking. The cost of the project is currently estimated at approximately $102 million.

Summary of Key Agreement Terms

- 65-year lease term with no options to extend. The campus land will be leased to UCorp, which in turn will sublease to the private development team for a term of 65 years.
- Ground rent comprised of the following three components:
    1. Base ground rent in the initial annual amount of $640,000, with any increase tied to increases in the student housing rental rates. In no event will the base ground rent decline from the prior year. Base ground rent shall be senior to operating expenses and debt service.
    2. Participation rent equivalent to 0.375 percent of net operating income (NOI) in excess of HPLLC’s equity return of not greater than 6.5 percent in year one, with escalation provisions based upon growth in NOI, up to a cap of three percent of NOI by year eight. Participation rent is estimated at $26,000 in the second year of occupancy and $283,000 by year ten of the project.
    3. Over-performance rent in the amount of 35 percent, and climbing to 50 percent over time, of all effective gross residential revenue earned from occupancy in excess of 95 percent. Over-performance rent is estimated at $60,000 in the initial year of the project based on a projected occupancy level of 97 percent.

    The combination of base ground rent, participation rent, and over-performance rent is estimated to be $750,000 in year two of operation, rising to $910,000 by year 5, based on a projected occupancy level of 97 percent. These amounts are consistent with the fair market value of the site.

- Student rental rate increases will be limited to no more than 3.5 percent annually, at the discretion of the development team. If the campus increases its own rental rates beyond 3.5 percent, this project may choose to match the campus increase.
- 100 percent equity financial structure provided by the development team.
- The campus holds the right to purchase the facility via a right of first refusal or a right of first offer.
- The campus will provide the residential life programming, including marketing and licensing, through an agreement with the development team.

The development team will be responsible for financing, constructing, operating, and maintaining the facility in good condition during the term of the lease. No campus or auxiliary funds will be committed to the project, and the site development will revert to the campus upon termination of the lease.

Educational Benefits

The development of the project site will help support the academic mission of the campus by providing greater access to much-needed student housing for many who otherwise would not be able to live on or near campus. Additionally, a vibrant, revitalized space will enable the campus to increase student participation in campus-related activities and enhance retention and graduation rates, while at the same time creating a focal point for the campus and the surrounding neighborhood. The campus and its development partner have worked to find the right balance between receiving a fair market return on the ground lease rental income and providing a reasonable cost for student housing. In this sense, the campus has a "double bottom line": 1) ground rent for the campus that provides a stream of revenue to cover the existing bond debt service, as well as additional revenue to support the housing program; and 2) affordable student rental rates that promote living on campus.

Recommendation

The following resolution is presented for approval:

> **RESOLVED**, by the Board of Trustees of the California State University, that the development of the mixed-use housing project, through a public-private partnership, on the campus of San Francisco State University, as described in Agenda Item 4 of the May 23-24, 2017 meeting of the Committee on Finance is approved, and that the chancellor, the executive vice chancellor and chief financial officer, and their designees are authorized to execute the agreements necessary to complete the transaction.

COMMITTEE ON FINANCE

Report on the 2017-2018 Support Budget

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Ryan Storm
Assistant Vice Chancellor
Budget

Background

The California State University Board of Trustees approved the 2017-2018 Support Budget request at its November 2016 meeting. That budget request called for an increase of \$343.7 million, including \$324.9 million from state funds and \$18.8 million of net student tuition revenue tied to funded enrollment increases. The approved uses of the increase are as follows:

Proposed Incremental Expenditures:

• Graduation Initiative 2025	\$75.0	million
• Compensation: Current Commitments	\$139.1	million
• Compensation: New	\$55.1	million
• Full-Time Equivalent Student Growth: 3,616 FTES	\$38.5	million
• Facilities and Infrastructure Needs	\$10.0	million
• Mandatory Costs	\$26.0	million
Total Incremental Expenditures	**\$343.7**	**million**

Governor Jerry Brown issued his 2017-2018 budget proposal in January 2017. The most significant component of this proposal for the CSU is \$157.2 million that could be used for operating and capital needs. This component is consistent with the governor's multi-year plan, now in its fourth and final year, to increase funding for higher education. The governor's budget proposal did not contain any one-time funding proposals for the CSU.

As a result of past board of trustees' discussions, the Chancellor's Office has implemented an active strategy to obtain an additional \$167.7 million from the state than is proposed in the governor's budget proposal. That amount will bridge the gap between the trustees' support budget request (\$324.9 million) and the governor's January proposal (\$157.2 million).

The development of the 2017-2018 state budget began in summer of 2016 and is two months away from completion. Below is what remains:

1. The Department of Finance is anticipated to release its May Revision on May 12, 2017. It will provide updated revenue estimates for the upcoming fiscal year and will likely propose changes to the governor's January budget proposals.
2. The Assembly and Senate will independently hold their post-May Revision budget hearings and will make final decisions on the governor's and their own budget proposals.
3. The houses will hold budget hearings to reconcile differences between their budget plans to create a single budget plan.
4. The legislature will vote on a final state budget in the middle of June.
5. The governor may veto portions of the budget and approve the remainder by June 30.

Legislative Hearings

The budget subcommittees for education finance in the Assembly and the Senate have held several hearings this spring on the CSU Support Budget request, the governor's higher education budget proposals, as well as issues of particular interest to them. So far, they have focused on student outcomes, access, enrollment trends, mental health services, and tuition.

To date, the legislative budget subcommittees have refrained from taking action on appropriation amounts for the CSU. On other segment and higher education-related issues, the Senate budget subcommittee has refrained from taking action, but the Assembly budget subcommittee rejected the Governor's proposal to phase out the Middle Class Scholarship program and approved the creation of a new program called the Degrees Not Debt Scholarship Program. The program would begin in 2018-2019 and have the purpose of reducing student borrowing by 20 percent each year until debt free college is achieved in five years. The program would supplement existing financial aid programs.

May Revision

Based on total tax collections through the month of April 2017, the Legislative Analyst's Office reports that the state may end fiscal year 2016-2017 with revenue projected at the January budget forecast. Additionally, at the time this agenda item was prepared major uncertainties still existed, including:

- Forecast economic growth and estimated revenues for the 2017-2018 fiscal year.
- The extent to which the state's constitutional spending guarantee for K-12 schools and community colleges (Proposition 98) would claim state revenues.
- The extent to which state populations and caseloads will change in the corrections and rehabilitation, health, and social service program areas.

Final CSU Budget Decisions are Dependent on Final State Decisions

With final state budget decisions still to be determined, there will not be enough information to determine a final budget for the CSU by the May 2017 meeting. The governor's January funding proposal is significantly less than the trustees' budget request, however the governor and legislature may elect to alter the CSU budget. As a result, the Chancellor's Office will await final state decisions (likely to occur by June 30, 2017) before finalizing the CSU budget, pursuant to resolution RFIN 11-16-14 passed in November 2016, which authorizes the chancellor to adjust and amend the support budget to reflect changes in the assumptions upon which the budget is based.

Summary

At the May 23-24, 2017 meeting, the board will receive a full update on the Governor's May Revision and any changes affecting the CSU budget. Information on the May Revision will be available for review at www.ebudget.ca.gov prior to the meeting.