

AGENDA

COMMITTEE ON FINANCE

Meeting: 4:15 p.m., Tuesday, July 19, 2005
Glenn S. Dumke Auditorium

William Hauck, Chair
Raymond W. Holdsworth, Vice Chair
Roberta Achtenberg
Larry Adamson
Herbert L. Carter
Carol R. Chandler
Moctesuma Esparza
Robert G. Foster
Ricardo F. Icaza
Corey Jackson
Kathleen Kaiser

Consent Item

Approval of Minutes of Meeting of May 10, 2005

Discussion Items

1. Status Report on the 2005/2006 Support Budget, *Information*
2. Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for a Project at Sonoma State University, *Action*
3. Auxiliary Organization Taxable Financing at California State University, Fullerton, *Action*

**MINUTES OF THE MEETING OF
COMMITTEE ON FINANCE
Office of the Chancellor
Glenn S. Dumke Conference Center
401 Golden Shore
Long Beach, California**

May 10, 2005

Members Present

Roberta Achtenberg, Acting Chair
Carol R. Chandler
Debra S. Farar
Robert G. Foster
Murray L. Galinson, Chair of the Board
Eric Guerra
Raymond W. Holdsworth
Kathleen E. Kaiser
Charles B. Reed, Chancellor

Approval of Minutes

The minutes of March 15, 2005 were approved.

Report on the 2005/2006 Support Budget

Mr. Patrick Lenz, assistant vice chancellor, budget development, presented the item. Mr. Lenz noted the May revision of state revenue projections was scheduled for release on Friday, May 13. Consequently, there was little information available to report since details were not yet available.

Mr. Lenz then reported on various CSU related issues raised by the Legislative Analyst's office. Some of the issues include, enrollment shortfall, financial aid, ftes funding revision, student fee increases, and readjustment of the set-aside amount from student fees for state university grants (from 33 to 25 percent).

Trustee Achtenberg remarked on the increase in number of degrees conferred. Chancellor Reed observed it was his experience that when fees are raised at a significant level during a short time frame, graduation rates tend to accelerate.

Trustee Achtenberg thanked Mr. Lenz for the update.

Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for Various Projects

Mr. Dennis Hordyk, assistant vice chancellor, financial services presented the item. He indicated there had been a revision to the item since distribution of the printed agenda and that handouts of the revised item had been provided.

Mr. Hordyk explained the item requested Board of Trustees approval to authorize funding for four projects under the CSU's commercial paper program. The four projects were: Long Beach Parking Structure 2; Sacramento Parking Structure 3; the Los Angeles Student Union Replacement; and the San Luis Obispo Student Housing North project. Mr. Hordyk pointed out the revision to the item concerned the Sacramento Parking Structure 3. Bids for the structure came in at 4 million over budget necessitating the change.

Mr. Hordyk presented the details of the first three projects and answered inquiries from the trustees. Several trustees expressed concern about the significant costs related to the parking structure at CSU, Long Beach. A discussion took place during which Mr. Hordyk, Dr. Robert Maxson, president, CSU, Long Beach, Mr. William Griffith, vice president, administration and finance, CSU, Long Beach, and Ms. Elvyra San Juan, assistant vice chancellor, capital planning, design and construction, addressed their questions.

Dr. Warren Baker, president, California Polytechnic State University, San Luis Obispo, gave a PowerPoint presentation on the fourth project contained in the item: the San Luis Obispo Student Housing North project.

Upon conclusion of further discussions on the various projects, the committee recommended approval of the proposed resolution (RFIN 05-05-06).

Approval of Resolution for Real Property Development Project at California State Polytechnic University, Pomona for Commercial Office and Research Facility for the Innovation Village Phase III

Mr. Hordyk presented the background and history of the project, and a summary of the significant benefits resulting from the first two phases. He then provided the financial details and a description of the third phase of the project.

Dr. J. Michael Ortiz, president, California State Polytechnic University, Pomona addressed the committee and provided additional details on the project. Dr. Ortiz concluded that in keeping with the purpose of the Innovation Village project as originally approved by the trustees, this phase of the project will provide numerous opportunities for students as well as faculty to engage in research, internships, and other activities with the tenants of the new structure.

The committee proposed adoption of the proposed resolution (RFIN 05-05-07).

Real Property Development Project at California State University, Dominguez Hills for a Hotel/Conference Center, Athletic Training Center/Office Complex, and Dormitories (Action)

Mr. West commenced presentation of the item adding that much of the information was a repeat of earlier discussions during the Committee on Campus Planning, Buildings and Grounds (CPBG). He clarified the intent of this item was to simply to present the financial terms of the project.

Mr. West referred to the action taken at the CPBG committee and acknowledged the need for consistency with the revision to that committee's resolution.

The committee heard comments and concerns from Mr. Gil Smith, a resident of the City of Carson, and Dr. Margaret Blue, chair, academic senate, CSU, Dominguez Hills.

Trustee Guzman Moore suggested due to the similarity of issues addressed in this committee and during the Committee on Campus Planning, Buildings and Grounds, it would be appropriate for the Committee on Finance to amend the resolution to Agenda Item 5 to reflect the same revision adopted by the Committee on Campus Planning, Buildings and Grounds' Agenda Item 4.

In the interest of consistency and clarification, Mr. West verbally re-stated the suggested amendment to the resolution.

The committee recommended approval of the proposed resolution as amended (RFIN 05-05-08).

Trustee Achtenberg adjourned the meeting.

COMMITTEE ON FINANCE

Status Report on the 2005/2006 Support Budget

Presentation By

Richard P. West
Executive Vice Chancellor and
Chief Financial Officer

Patrick J. Lenz
Assistant Vice Chancellor
Budget Development

Summary

The 2005-06 State Budget, as passed by the Senate and Assembly Budget Conference Committees, provides an increase of \$222.9 million to the California State University. The legislature approved funding to support CSU's Compact agreement with the Governor, approved \$26 million from bond funds for the capital renewal program, supported an augmentation of \$7 million to fund Outreach and Academic Preparation programs, and an augmentation of \$4 million to increase nursing programs. The Board will be given an overview of the budget including the recommendations of the Budget Conferees, and final actions by the Governor on the 2005-06 CSU budget.

2005-06 CSU Support Budget

In response to three years of budget reductions of over \$500 million, Chancellor Reed negotiated a Compact funding agreement with Governor Schwarzenegger as part of the 2004-05 budget that would provide long-term planning and funding stability to the CSU. Last fall, the Board of Trustees approved and submitted budget recommendations to the Governor and the Department of Finance consistent with the funding agreement of the Compact. The January 2005-06 State Budget included an augmentation of \$211.7 million consisting of \$110.5 million from the General Fund and \$101.2 million from the increase in student fee revenue. With the exception of a \$7 million reduction for one-time funding in the 2004-05 fiscal year, the Governor's January budget is consistent with the revenue and expenditure assumptions requested and approved by this Board last October that includes:

- Increasing enrollment growth by 2.5 percent to serve an additional 8,103 Full-Time Equivalent Students (FTES);
- A set-aside of \$23.3 million for student financial aid for CSU's neediest students;

- \$40.7 million to cover mandatory costs for the first time in the past three years;
- A compensation pool of \$88.1 million; and
- \$7.9 million for long-term needs including technology, libraries, and instructional equipment.

Legislative Review and Recommendations

During the review of CSU's 2005-06 budget, the legislature considered a variety of issues raised by the Legislative Analyst Office (LAO), May Revise recommendations from the Governor's Office, and their own budget augmentations for Outreach and Academic Preparation, and nursing programs. The budget subcommittee's actions supported the Governor's January budget consistent with the Compact Agreement, approved the LAO recommendation to review and revise the "marginal cost" methodology in preparation of the 2006-07 budget, and augmented the CSU budget by \$11 million to fund their own budget priorities for Outreach and Academic Preparation, and nursing programs. The budget subcommittees did not approve a \$250,000 May Revise augmentation by the Governor to expand CSU's math and science teacher preparation programs.

The legislature reviewed issues related to student fees, financial aid, enrollment growth and student access, marginal cost methodology, student/faculty ratio, excess unit fee policy, capital renewal funding, math and science teacher preparation programs, nursing programs, and outreach and academic preparation programs. In addition to the legislature's support for funding the Compact Agreement that will provide the CSU with \$211.9 million in new funding, CSU will be allowed the flexibility of using \$26 million in current General Obligation bonds for a Capital Renewal program that will extend the useful life of facilities to provide classroom space for students. The legislature also approved Supplemental Report Language for a review of CSU's state General Fund dollars per student, known as the "marginal cost" methodology, which could allow the CSU greater funding per student beginning in the 2006-07 fiscal year.

Conclusion

The funding provided in the 2006-07 budget will allow the CSU to enroll over 10,000 new students, provide needy students with financial aid, fund mandatory costs, provide a compensation pool to fund general salary increases that have been absent for three years, and provide resources to help fund long-term needs including technology, libraries, and instructional equipment. The Board will be provided with an overview of the final budget actions at the July meeting.

COMMITTEE ON FINANCE

Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for a Project at Sonoma State University

Presentation By

Dennis Hordyk
Assistant Vice Chancellor
Financial Services

Summary

This item requests the Board of Trustees to authorize the issuance of Systemwide Revenue Bonds and the issuance of interim financing under the CSU's commercial paper program in an aggregate amount not-to-exceed \$4,740,000 to provide funds for the construction of a hospitality center associated with the Green Music Center project at the Sonoma State University. The long-term bonds for the hospitality center project will be part of a future Systemwide Revenue Bond sale and are expected to bear the same ratings from Moody's Investors Service and Standard and Poor's Corporation as the existing systemwide program bonds.

The project is as follows:

1. Sonoma State University Hospitality Center Project

At the January 2005 Board of Trustees meeting, the schematic plans for the Sonoma State University Green Music Center (GMC), a music/faculty office building, and a conference center were approved. Further, at the January meeting, the Trustees approved the auxiliary financing of a not-to-exceed \$13 million short-term financing associated with the concert hall, also a component of the GMC project. The auxiliary financing was issued on March 1, 2005 and will be repaid by donor pledges secured with letters of credit. Recently the campus came to understand that because of conflicting scheduling needs, it made better sense to separate the conference center from the GMC project. For this reason, the conference center has been removed from the project leaving only the hospitality center portion as part of the GMC project.

The various components of the GMC facility will be funded using multiple sources. The concert hall is funded through donations and short-term financing as noted above; the music/faculty office building funded through the 2005/06 State general obligation bond appropriations (Proposition 55); and the hospitality center project will be funded through the issuance of Systemwide Revenue Bonds whose financing authorization is being presented to the Board for approval at this time.

Project Description

The GMC facility contains a 1,400-seat concert hall and supporting backstage to accommodate large performances in the music and fine arts programs. The concert hall venue, though funded by donor funds and partnered with the Santa Rosa Symphony, will be driven by academic curricular considerations. The music/faculty office building will provide instructional capacity for 300 Full-Time-Equivalent (FTE) students and 20 faculty offices. The hospitality center (approximately 19,300 gross square feet) will provide banquet, meeting, restaurant facilities capable of serving groups as large as 200, and a very limited retail space. The facility will directly benefit Sonoma State University students, faculty, and the community at large in providing a first class complex for teaching, learning, and performance for the performing arts curriculum, community outreach programs, and teaching partnerships.

Budget and Financing

The not-to-exceed par value of the proposed bonds is \$4,740,000 and is based on an estimated project cost of \$4,032,000 for the hospitality center project, which is a portion of the GMC facility (a total project budget of \$52,310,000). The GMC facility will be constructed under the CM at Risk delivery method and is scheduled to begin construction in Fall 2005 and be completed in Fall 2007.

The campus has prepared a financial plan that supports the debt service obligation of the hospitality center portion of the project using four revenue sources: 1) lease payments from Sonoma State Enterprises (SSE), 2) lease payments from University Conferences, Events and Catering program (CEC), 3) lease payments from the GMC facility, and 4) lease revenue from the University Housing program. The campus financial plan demonstrates that the hospitality center project will be self-supporting. The overall fiscal management of the hospitality center project will be under the University Housing program, a pledged program of the Systemwide Revenue Bond program.

The following table provides information about this financing transaction.

Not-to-exceed amount:	\$4,740,0000
Amortization:	Approximately level over 30 years.
Pro-forma maximum annual expected debt service:	\$308,223
Projected debt service coverage including the new project: ¹	
Net revenue – all Sonoma pledged revenue programs:	1.37
Net revenue – projected for the university housing program:	1.25
Net revenue – projected from the project:	1.01

1. Projected information – Combines unaudited 2003/04 information for the campus-operated pledged revenue programs and the first full year of operation of the new project.

The not-to-exceed amount for the project totaling \$4,740,000, the maximum annual debt service, and the ratios above are based on a Guaranteed Maximum Price (GMP) associated with the hospitality center portion of the Green Music Center project, expected debt service and capitalized interest at the current interest rate environment plus 50 basis points (computed average coupon rate – 5.04%; June 20, 2005), which provides a modest safeguard to be used if needed 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 our CSU program standard. The campus has submitted a financial plan that has a 1.25 housing program net revenue debt service coverage and a campus combined net revenue debt service coverage from all pledged revenue programs of 1.37, both of which meet the CSU benchmarks of 1.10 and 1.35 times respectively.

Trustee Resolutions and Recommended Action

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

1. Authorize the sale and issuance of Systemwide Revenue Bond Anticipation Notes and the related sale and issuance of the Trustees of the California State University Systemwide Revenue Bonds in an amount not-to-exceed \$4,740,000 and certain actions relating thereto.
2. Provide a delegation to the Chancellor; the Executive Vice Chancellor and Chief Financial Officer; the Assistant Vice Chancellor, Financial Services; and the Senior Director, Financing and Treasury; and their designees to take any and all necessary actions to execute documents for the sale and issuance of the bond anticipation notes and the revenue bonds.

Approval of the financing resolutions for the project as described in this Agenda Item 2 of the Finance Committee of the July 19-20, 2005 meeting of the CSU Board of Trustees is recommended for:

Sonoma State University Hospitality Center Project

COMMITTEE ON FINANCE

Auxiliary Organization Taxable Financing at California State University, Fullerton

Presentation By

Dennis Hordyk
Assistant Vice Chancellor
Financial Services

Milton Gordon
President
California State University, Fullerton

Summary

The CSU Fullerton Housing Authority (Housing Authority), a recognized auxiliary organization in good standing, is proposing a commercial (taxable) borrowing not to exceed \$22,085,000, for a term of up to 30 months, to finance the construction of forty-two attached for-sale units to support the retention and recruitment of university faculty and staff. The Authority will construct the units on land to be acquired through this financing. The Trustees approved an amendment to the nonstate funded capital outlay program for the project in September 2004. The taxable financing will not create any legal or direct obligation of the State of California or the Trustees and will be secured by the Housing Authority's interest in the property until the units are sold.

Project Description

The Housing Authority was established to develop and operate housing for faculty and staff in support of the University's mission. The home prices in Orange County, where the campus is located, are in the top 5% nationwide, making the recruitment and retention of faculty and staff difficult, particularly at a time when the university is attempting to recruit a significant number of replacement personnel over the next few years.

The University Heights project will be the second, off-campus faculty and staff homeownership program of the Housing Authority. It will provide 42-paired units in 21 buildings on a 3-acre site approximately 3 miles west of the campus. The homes will provide three and four-bedroom units ranging in size from 1,755 to 2,136 square feet. Valeo Companies, Inc. will construct the project under a guaranteed maximum price contract with the Housing Authority.

The three-acre site, which the Housing Authority will acquire, is part of a larger six and one half acre parcel currently owned by the Elks of USA, Fullerton (Elks). The Housing Authority will

provide to the Elks \$275,000 in cash, with an agreement to pay for subsequent costs (estimated at \$3,000,000) for the demolition of the existing Elks' lodge and the construction of a replacement building on the property retained by the Elks. The Housing Authority also will be responsible for collecting and paying a long-term monthly payment to the Elks (\$100/month, per unit and a 3% annual growth rate) that will remain a liability of the Housing Authority for 99-years, and the Housing Authority expects to collect these monthly payments from the homeowners as a condition of the ground lease. The aggregate present-value return to the Elks for the three-acre parcel (cash, plus demolition and construction of lodge, plus present value of monthly payments discounted at 6%) is estimated at \$4,710,000. The residual land value that is to be acquired by the Authority has been appraised at \$4,750,000.

Home prices are expected to be set at \$469,000 to \$578,000, depending on the size of the home purchased and the location. Sales prices for homes will be less than current local market rates. The Housing Authority will enter into long-term ground leases with the homebuyers, allowing the Authority to enforce eligibility criteria, control the resale of the homes, and maintain the affordability of the units. As a condition of the ground lease, the Housing Authority expects to collect monthly payments from the homeowners, to be forwarded to the Elks (see previous paragraph). The ground lease will contain provisions designed to ensure that the community retains its campus-related purpose, is governed and maintained in a quality manner, and remains at a relatively constant level of affordability upon resale. Maximum appreciation of the homes will be indexed to annual changes in the HUD Median Family Income index for Orange County. Homeowners will be required to notify the Housing Authority whenever they elect to sell their homes, the Housing Authority will have an option to purchase the homes, and it will maintain a prioritized list of potential home buyers and oversee the resale process.

At the time this agenda was prepared, the Guaranteed Maximum Price (GMP) for the project costs and City plan-check approvals had not been received. Upon receipt of an acceptable GMP and all City approvals, the campus wishes to proceed with the project for timely completion.

Auxiliary Organization Financing

The Authority is currently negotiating a conventional construction loan with Citibank in an amount not to exceed \$22,085,000. The construction loan will be secured by the Housing Authority's interest in the property and will be repaid from the sales of the units. The construction loan may be extended to 30 months to allow for the sale of all unsold units.

The following summarizes key information regarding the proposed construction financing.

Taxable Amount not-to-exceed: \$ 22,085,000
Term: 18 months + Two 6-month extensions
Estimated rate: Prime minus 50 basis points

Recommended Action

The following resolution is recommended for approval:

RESOLVED, by the Board of Trustees of the California State University, that the trustees:

1. Approve the proposed auxiliary organization financing in an amount not to exceed \$22,085,000 as described and for the purpose indicated in Agenda Item 3 of the Committee on Finance on July 19-20, 2005, pending a letter by the campus president, submitted to the Chancellor, certifying that an acceptable GMP and all city approvals have been received by the Housing Authority.
2. Confirm that the Chancellor, the Executive Vice Chancellor Business and Finance, the Assistant Vice Chancellor, Financial Services, and the Senior Director, Financing and Treasury, are authorized to take any and all actions on behalf of the Board of Trustees and to execute any documents that in their judgment are necessary to assist the auxiliary organization to complete the financing described in this agenda item so long as the aforementioned contingencies have been met.