

AGENDA

COMMITTEE ON FINANCE

Meeting: 2:30 p.m., Tuesday, January 31, 2006
Glenn S. Dumke Auditorium

William Hauck, Chair
Raymond W. Holdsworth, Vice Chair
Roberta Achtenberg
Herbert L. Carter
Carol R. Chandler
Moctesuma Esparza
Robert G. Foster
Ricardo F. Icaza
Corey Jackson
A. Robert Linscheid
Craig R. Smith

Consent Item

Approval of Minutes of Meeting of November 8, 2005

Discussion Items

1. Report on the 2006-2007 Support Budget, *Information*
2. Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for Various Projects, *Action*

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

November 8, 2005

Members Present

Raymond W. Holdsworth, Vice Chair
Roberta Achtenberg
Carol R. Chandler
Moctesuma Esparza
Robert G. Foster
Murray L. Galinson, Chair of the Board
Corey Jackson
A. Robert Linscheid
Charles B. Reed, Chancellor
Craig Smith

Approval of Minutes

The minutes of September 21, 2005, and October 27, 2005 were approved.

2005-2006 Student Fee Report

Trustee Holdsworth called the session to order and announced the first item was the annual campus student fee report that identifies the range of undergraduate, graduate, and non-resident fees paid by the students attending the California State University (CSU).

Mr. Lenz, assistant vice chancellor for budget development, reviewed the contents of the written agenda item and recalled the lengthy conversation on student fees and financial aid during the October 27, 2005 board meeting.

Trustee Holdsworth asked why CSU, Bakersfield's student fees were disproportionately higher than other campuses. Mr. Lenz explained the circumstances and process by which the campus came to its current fee structure. Trustee Smith said the report was important because it creates a context in which the evolution of the system's erratic fee history can be better understood. He wondered however, why fees could not be more universal. Citing a few examples, Mr. Lenz remarked it probably had a great deal to do with the point in time in which certain fees were implemented and what the purpose of the fees were.

Trustee Linschied noted the report states that presidents have the authority to adjust fees after 'appropriate consultation', and asked what was considered to be 'appropriate consultation'. Mr. Lenz explained the process includes consultation among various constituency groups at the campus including faculty and students, to identify the purpose of a proposed fee increase. The

proposal is reviewed to determine the impact on students and others and then referred to the chancellor's office to review for any additional inconsistencies. He explained the circumstances under which certain fee requests may be not be approved.

Trustee Guzman Moore commented that the report was very important and said the board has taken its responsibility seriously when it comes to reviewing student fees. She pointed out trustees are in a very difficult situation because the only alternatives for creating new funding sources appear to be through further budget cuts or increasing student fees. She suggested creation of an ad-hoc group to study alternative funding opportunities to offset student fee increases. Chair Galinson appointed Trustees Hauck, Gowgani, and Guzman Moore, Executive Vice Chancellor/CFO Richard West, and campus presidents Milton Gordon and Don Kassing to the group.

Trustee Esparza requested additional information regarding the total cost of instruction and attendance for our comparable institutions to help determine where CSU stands with regard to federal guidelines on student fees and tuition.

Trustee Holdsworth thanked Mr. Lenz for the report.

Approval of Resolution for Real Property Development Project at California State University, Fresno for a Mixed-Use Development Project

The item requested approval to allow the California State University, Fresno Association, Inc., to enter into a long-term ground lease relationship with Kashian Enterprises, to construct a 900,000 square foot mixed-use commercial development to be located east of the Save-Mart event center.

Dr. John Welty, president, California State University, Fresno, addressed the committee and reviewed the history and details of the project, and Mr. Dennis Hordyk, assistant vice chancellor, financial services, provided an update on the financial terms. He indicated there is solid campus support for moving ahead with the project and assured the committee they would receive progress reports on the project at future board meetings.

Trustee Holdsworth stated that the trustees expect appropriate measures be taken to ensure the following: signage for the project must include the CSU, Fresno name; buildings correspond with existing campus architecture and design features; provisions are made for operations and maintenance that preserve the appearance of the project; and finally, that methods be implemented to ensure personal safety.

The committee recommended approval of the proposed resolution (RFIN 11-05-12).

COMMITTEE ON FINANCE

Report on the 2006-2007 Support Budget

Presentation By

Richard P. West
Executive Vice Chancellor and
Chief Financial Officer

Patrick J. Lenz
Assistant Vice Chancellor
Budget Development

Summary

On January 10, 2006, Governor Arnold Schwarzenegger submitted his 2006-07 state budget to the legislature. The total budget represents a \$125.6 billion spending plan of which \$97.9 billion is from the state General Fund, an increase of \$7.6 billion or 8.4 percent over the current year budget. The CSU will receive \$215 million additional revenue in the Governor's proposed budget representing increase of 5.7 percent over the 2005-06 budget.

The Board will be presented with the governor's overall funding assumptions and budget priorities; the proposed budgets of K-12, community colleges, CSU, and UC; and legislative response to the 2006-07 budget.

2006-07 CSU Support Budget

The 2006-07 support budget for the CSU is just over \$4 billion with nearly \$2.8 billion from the state General Fund and \$1.2 billion anticipated in student fee revenue. The CSU will receive an additional \$189 million in state General Fund support and \$26 million in new fee revenue associated with an enrollment increase of 2.5 percent. The state General Fund increase is 7.3 percent above the current year budget and includes \$54.4 million to "buy-out" the proposed increase in undergraduate and graduate student fees in the 2006-07 academic year. If approved by the legislature, this would allow undergraduate fees to remain at \$2,520, teaching credential students at \$2,922 and graduate students at \$3,102, or the same fee level students are paying in the current academic year.

The Governor's budget also supports, with some modifications, the Trustees approved budget under the Higher Education Compact for mandatory costs (\$33.6 million), enrollment growth (\$70.6 million), financial aid (\$5.6 million), compensation (\$93.9 million) and long-term need

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(\$10 million). Enrollment growth generates \$5 million more than the Board approved last fall as a result of successfully securing changes in the marginal cost funding formula. Although the methodology is different than proposals reviewed as part of initial discussions with the Department of Finance, Legislative Analyst Office, and the University of California; the marginal cost rate in the Governor's budget proposal is consistent with changes proposed by CSU for faculty hiring salaries, the calculation of graduate FTES, and new space funding.

The budget includes trailer bill language that would place student fee revenue in the CSU local trust fund rather than the state General Fund. While the state has requested an annual offset to recognize that CSU will now earn interest income on our fee revenue, the CSU views this as a major benefit for our accounting practices and would make the treatment of fee revenue from CSU students consistent with how fee revenue is treated at the University of California and universities throughout the country.

The Administration deleted \$7 million from the university budget that is associated with campus outreach programs and systemwide academic preparation. This action is consistent with the action in the UC budget that deleted \$17.3 million associated with student outreach programs. However, the Senate Pro-Tem and the Speaker of the Assembly have already declared this issue a high priority for budget restoration.

The budget includes an augmentation of \$1.1 million to increase our efforts to produce more K-12 math and science teachers. It also continues the \$2.3 million CSU received in the current year to expand masters-level nursing programs. The university also will receive flexibility to redirect \$50 million in General Obligation bonds for capital renewal and renovation. The CSU was first given flexibility to fund this effort with \$26 million in the current year budget.

Finally, as part of the Governor's "Strategic Growth Plan" to provide a K-12 through Higher Education, General Obligation bond funding over the next 5 years, CSU will receive (on average) \$345 million per year for capital facility projects, consistent with the agreement in the Higher Education Compact. The proposed 2006-07 budget includes \$234 million for 15 capital facility projects consistent with the Trustees budget recommendations.

The Legislative Analyst Office will review and release their analysis on the Governor's 2006-07 budget by mid-February and legislative hearings will begin on the California State University budget the first week of March.

Conclusion

This is an information item and the Board will be presented with a comprehensive review of the Governor's 2006-07 state budget.

BUDGET FACT SHEET
2006/07 Governor's Budget

	Gov. Bgt.	BOT Budget
CSU General Fund Base (<i>includes retirement, nursing and lease bond adjustments</i>)	\$2,597,279,000	\$2,592,630,000
CSU Fee Income Revenue Base	\$1,205,292,000	\$1,205,292,000
Total CSU 2005/06 General Operating Support Base	\$3,802,571,000	\$3,797,922,000
Remove \$7 million One-Time 2005/06 Outreach Funding	(7,000,000)	
Annuitant Dental Benefit and Accounting Budget Adjustments	1,504,000	
Fee Revenue Fund Transfer Offset	(5,000,000)	
Adjusted 2005/06 General Fund Base	\$2,586,783,000	\$2,592,630,000
Provide 3% Compact General Fund Increase	75,815,000	75,803,000
Increase 2006/07 FTES Enrollment Target by 2.5% (8,490 FTES)	57,664,000	52,660,000
Buy Out Scheduled 2006/07 Fee Rate Increases	54,386,000	
Math/Science Teacher Recruitment Initiative	1,115,000	
2006/07 CSU General Fund Appropriation	\$2,775,763,000	\$2,721,093,000
2006/07 CSU Fee Income	\$1,231,304,000	\$1,312,278,000
Total CSU 2006/07 General Operating Support	\$4,007,067,000	\$4,033,371,000
<i>General Fund Percentage Change over 2005/06 Revised Base</i>	7.3%	5.0%
Total 2006/07 General Fund Adjustments	\$188,980,000	\$128,463,000
Fee Increase Revenue, 8% undergrad and 10% grad increases with 33% financial aid set-aside	0	79,504,000
Fee Revenue From Enrollment Growth (BOT included proposed fee rate increases)	26,012,000	27,482,000
Net 2006/07 Fiscal Impact, with Fee Revenue	\$214,992,000	\$235,449,000
CSU 2006/07 Budget Plan Adjustments (including fee revenue income)	\$214,992,000	\$235,449,000
Implement Base Budget Adjustment for the Center for CA Studies	84,000	
Fund 2006/07 Enrollment Target (+8,490 FTES)	70,606,000	65,127,000
Student Financial Aid Grants	5,644,000	32,739,000
Mandatory Cost increase for New Space, Health & Dental Benefits, Insurance, and Energy	33,589,000	33,629,000
3.64% Employee Compensation Increase Pool for Collective Bargaining	93,954,000	93,954,000
Long Term Need in Technology, Libraries and Deferred Maintenance	10,000,000	10,000,000
Math/Science Teacher Recruitment Initiative	1,115,000	

COMMITTEE ON FINANCE

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

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 \$61,510,000 to provide funds for two projects. To facilitate maximum flexibility, the Board is being asked to approve separate resolutions relating to the projects. The long-term bonds will be part of a future Systemwide Revenue Bond sale and are expected to bear the same ratings from Moody's Investors Service and Standard and Poor's Corporation as the existing Systemwide program bonds.

The projects are as follows:

1. Channel Islands Student Housing, Phase 2

Previously, the Board of Trustees approved the amendment of the Nonstate Funded Capital Outlay program in September 2005, and currently the Board is being requested to approve the schematics during the Committee on Campus Planning, Buildings and Grounds. The Student Housing Phase 2 project will construct a 2- and 3-story complex including renovation of existing buildings (20%) as well as new construction (80%). The project will provide a minimum of 464 bed spaces in 127 semi-suite units (involving 132,200 gross square feet). Additionally, it will include student study lounges, a laundry facility, a common meeting room, a small recreational room, and approximately 300 parking spaces. In Fall 2004, the campus opened a Phase 1 Student Housing facility with 353 beds, which are fully occupied, with a significant waiting list. The project will provide critically needed student beds to support current and future student enrollment. The project received a favorable recommendation from the Housing Proposal Review Committee in October 2005.

The not-to-exceed par value of the proposed bonds is \$42,025,000 and is based on an estimated project cost of \$38,664,000. The project will be fully funded from financing proceeds. Both the

housing and parking programs will support the project debt service. The campus received two responsive bids, and expects to award a design-build contract to construct the project in February 2006, with project completion in August 2007.

The following table provides information about this financing transaction.

Not-to-exceed amount:	\$42,025,000
Amortization:	Graduated payments for 6 years, and approximately level over 25 years.
Pro-forma total maximum annual expected debt service:	\$2,833,381
Projected debt service coverage including the new project: ¹	
Net revenue – all Channel Islands pledged revenue programs:	1.37
Net revenue – projected for the campus Housing program:	1.37
Net revenue – projected for the campus Parking program:	1.39
Net revenue – projected for the Housing Project:	1.00

1. Projected information – Combines unaudited 2004/05 information for the campus-operated pledged revenue programs and the first full year of operation of the new project. Does not include any debt service, revenues, or expenses related to the Channel Islands Site Authority.

The not-to-exceed amount for the project totaling \$42,025,000, the maximum annual debt service, and the ratios above are based on the expected construction project bid amount, expected debt service and capitalized interest at the current interest rate environment plus 50 basis points (computed average coupon rate – 5.10%; January 5, 2006), 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 campus has developed a financial plan supporting the total project by projecting net operating revenue reaching a 95% occupancy rate. As a new campus, Channel Islands is focused on meeting the needs of a growing student body. A number of facts lead the campus to be very optimistic about this project financing, including: (1) the financial plan developed is fairly conservative in both its revenue and expense projections; (2) the surrounding community provides little housing suitable and affordable for students now and in the future, as the campus is surrounded by agricultural fields that are protected from development for many years to come; (3) FTE growth in student enrollment is projected to grow by 900 between now and Fall 2007; and (4) the campus is becoming a destination campus for students throughout the state. These factors cause the campus to believe that they will achieve maximum occupancy and that their housing proforma will improve.

Revised

The campus combined net revenue debt service coverage from all pledged revenue programs is 1.37, which meets the CSU benchmark of 1.35 times. Both the housing and parking programs have projected net revenue coverages of 1.37 and 1.39, respectively, which are well above the program benchmarks of 1.10. The campus believes that these programs will provide needed stability to the new project in the event that project net revenues are below their projections. Assuming graduated debt service for the first six years of the new project, following the capitalized interest period, and using conservative interest rate assumptions, the housing project is projected to have a debt service coverage ratio (DSCR) of 1.0, which meets the 1.0 CSU benchmark for a project. However, the project DSCR is projected to be at .99 in year 2012/13, but increase thereafter. In this or similar events, the campus anticipates that the excess revenues generated by the current housing program would be needed to provide a small subsidy to the new project to meet its debt service. It is recommended that the Trustees approve the project to help meet the compelling student housing needs of the campus.

Sacramento University Enterprises Bookstore Project

Previously the Board of Trustees approved at its July 2004 meeting an amendment to the Nonstate Funded Capital Outlay program and schematic plans for the Bookstore. The three-story building (93,170 gross square feet) will be constructed in the east-central quadrant of the campus, adjacent to the University Union. The first and second floors will provide retail space for sales, administration, and warehousing. The third floor will provide office space for the University Enterprises Inc., an auxiliary organization in good standing, and other administrative offices.

The total project cost is \$23,230,200. The University Enterprises Inc. (Enterprises) will contribute \$6,000,000 to the project, with a not-to-exceed par value of the proposed bonds at \$19,485,000. Due to an existing operating agreement between the Enterprises and Follett Higher Education Group, Inc, a private entity, the bookstore operations portion of this facility does not qualify, under IRS regulations, for tax-exempt financing and, therefore, a portion of this project will be financed with taxable bonds. The campus expects to move forward with construction and open the facility in Spring 2007. When completed, the project will be operated under a financing lease with the Enterprises. The financing lease is being developed and will be fully executed before the Trustees issue debt for this project.

The following table provides information about the total financing transaction combining the taxable and tax-exempt issues.

Not-to-exceed amount:	\$ 19,485,000
Amortization:	Approximately level over 30 years
Pro-forma combined maximum annual expected debt service:	\$ 1,300,583
Projected debt service coverage including the new project: ¹	
Net revenue – all Sacramento pledged revenue programs:	1.95
Net revenue – all Enterprise pledged revenue programs:	1.32
Net revenue – projected for the Enterprise Bookstore Project:	1.62

1. Projected information – Combines the 2004/05 information for the campus-operated pledged revenue programs and the first year of operation of the new project with expected full debt service.

The not-to-exceed amount, the maximum annual debt service, and the ratios above are based on the expected construction project bid, expected debt service, and capitalized interest at the current interest rate environment plus 50 basis points (computed average coupon rate – 5.29%; January 5, 2006), 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 Enterprises' obligation to pay rent under the financing lease will constitute a general obligation that is on parity with its existing bond issues. The Enterprises has developed a financial plan that demonstrates its ability to meet its debt service obligations for the new project. The financial plan also includes level amortization of debt service, which is our CSU program standard. With this project, the Enterprises' net income from pledged revenue is at 1.32 times debt service, which is above the CSU benchmark for auxiliary projects of 1.25.

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 projects described in this agenda item that authorize interim and permanent financing. 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 \$61,510,000 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.

Revised

Approval of the financing resolutions for the projects as described in this Agenda Item 2 of the Finance Committee of the January 31 – February 1, 2006 meeting of the CSU Board of Trustees is recommended for:

- 1. Channel Islands Student Housing, Phase 2**
- 2. Sacramento University Enterprises Bookstore**