

AGENDA

COMMITTEE ON FINANCE

Meeting: 12:45 p.m., Tuesday, September 16, 2008
Glenn S. Dumke Auditorium

William Hauck, Chair
Raymond W. Holdsworth, Vice Chair
Roberta Achtenberg
Herbert L. Carter
Kenneth Fong
Margaret Fortune
Curtis Grima
A. Robert Linscheid
Glen O. Toney

Consent Item

Approval of Minutes of Meeting of July 15, 2008

Discussion Items

1. Report on the 2008-2009 Support Budget, *Information*
2. Report on the 2009-2010 Support Budget, *Information*
3. 2009-2010 Lottery Revenue Budget, *Information*
4. Annual Investment Report, *Information*
5. Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for Various Projects, *Action*

**MINUTES OF THE MEETING OF
COMMITTEE ON FINANCE**

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

July 15, 2008

Members Present

William Hauck, Chair
Raymond W. Holdsworth, Vice Chair
Roberta Achtenberg
Jeffrey L. Bleich, Chair of the Board
Herbert L. Carter
Kenneth Fong
Margaret Fortune
Curtis Grima
A. Robert Linscheid
Charles B. Reed, Chancellor

Approval of Minutes

The minutes of May 14, 2008 were approved.

Report on the 2008-2009 California State University Support Budget

Trustee Hauck introduced Mr. Robert Turnage, assistant vice chancellor, budget, and asked him to present the report.

Mr. Turnage noted that the Governor, Speaker, President Pro-Tem, and minority leaders of each house, were presently engaged in ongoing conversations on how to resolve the deep differences that exist between the various caucuses and the Governor on how to solve the state's monumental fiscal problem.

Mr. Turnage presented his insights and observations related to the ongoing activities in Sacramento and how they may affect CSU's budget, and added there has been no indication that there will be a final decision/agreement on the budget anytime soon.

He then reviewed the content of the written agenda item indicating that nothing much had changed since the agenda was prepared and no decisions had been made to-date in the budget

stand-off. Mr. Turnage mentioned the only matter of note was inclusion of a short segment of language that could prove problematic for CSU in future budget cycles. He explained the nature and implications of the language if left 'as is' and informed the committee of efforts taken to resolve the issue. The final outcome was a change in the language to reflect that CSU will provide a report in January 2009 to explain to the legislature how CSU is managing to fund over enrollment and unfunded compensation.

A brief discussion took place during which Mr. Turnage addressed various questions and concerns from the trustees.

He concluded his remarks and said he wanted to thank all the participants in the Alliance for the CSU for their continued dedication and hard work in advocating for the CSU's budget.

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

Trustee Hauck introduced the item requesting the trustees' approval for three campus projects.

1. San Marcos Parking Structure 1, Phase 1 and 2
2. Chico Sutter Hall (University Housing and Food Service, Phase 1)
3. Channel Islands University Student Union

Trustee Hauck introduced Ms. Colleen Nickles, assistant vice chancellor, financial services, and asked her to present the item. Ms. Nickles explained that the item was a request for the Board of Trustees to authorize the issuance of systemwide revenue bonds and interim financing under the CSU's commercial paper program in an aggregate amount not-to-exceed \$114,625,000 to provide funds for the three projects.

Ms. Nickles proceeded to review the items in detail as set forth in the written agenda item.

Ms. Nickles and Ms. Elvyra San Juan, assistant vice chancellor, capital planning, design and construction, addressed questions from the trustees on the projects.

The committee recommended approval of the proposed resolution (RFIN 07-08-08).

Trustee Hauck adjourned the committee meeting.

COMMITTEE ON FINANCE

Report on the 2008-2009 Support Budget

Presentation By

Robert Turnage
Assistant Vice Chancellor
Budget

Summary

At the time this report was prepared—59 days into the 2008-09 fiscal year—the Legislature was still essentially at impasse in overcoming differences between the parties and the Governor as to how to resolve a budget gap estimated at between \$15 billion and \$17 billion.

2008-09 Support Budget Overview

In January, the Governor proposed a budget for support of the CSU in 2008-09 that was \$312.9 million below what the Department of Finance calculated as needed for a basic “workload” budget. In his “May Revision,” the Governor recommended reversing \$97.6 million of the proposed reduction. In the budget hearings held soon afterwards, the Senate and Assembly budget subcommittees approved the Governor’s revised amount for support of CSU operations—a total of \$2.97 billion from the General Fund. This is essentially the same level of funding provided to the CSU in the 2007-08 fiscal year, yet approximately \$215 million below workload needs.

In early July, the Legislature’s six-member budget conference committee reconciled the differences between the Senate and Assembly budget plans—differences that primarily involved parts of the state budget other than the CSU. The conference committee’s report was adopted on a four to two party-line vote, and therefore represented agreement only between Senate and Assembly Democrats. Profound differences between the parties, as well as differences with the Governor, were still unresolved at the time this overview was prepared.

On August 17th, the Assembly held a four-hour debate on the budget that failed to produce the two-thirds vote necessary for passage (54 votes in the 80-seat Assembly). 45 Democrats voted yes and 30 Republicans voted no. One Democrat and one Republican abstained. Two Democrats and one Republican were absent.

In an attempt to move budget discussions out of deadlock, the Governor took the unusual step on August 20th of issuing a further revision of his budget proposal that is now being referred to as

the “August Revision.” In many respects, this document was identical or similar to his May Revision. Of significance, it included a proposal to raise the sales tax by one cent on the dollar for three years. Under this proposal the state portion of the sales tax would rise from five percent of taxable sales to six percent until September 2011, and thereafter drop to 4.75 percent on an ongoing basis. This would generate an estimated \$4 billion in 2008-09, \$4.8 billion in 2009-10 and \$5.1 billion in 2010-11. Proposed spending in the August Revision, although similar to the May Revision, was about \$2 billion below the budget conference committee plan. These reductions included \$1.1 billion in K-14 education (Proposition 98), with most of the remaining cuts in health and welfare programs. The August Revision maintained the CSU at the May Revision proposed spending level.

Early reaction to the August Revision was cool from both parties. Democrats voiced opposition to the spending reductions, the substitution of a sales tax increase for their proposal to increase income tax rates on high-income taxpayers, and the non-permanent aspect of the sales tax proposal. They also opposed the Governor’s repeated call for “budget reform” that would give him and all future governors power to reduce appropriations mid-year. Republicans, on the other hand, were adamant in their continued opposition to any tax increase. They also believed that the Governor’s proposed “rainy day fund” would be inadequate in controlling future spending and they continued to insist on a constitutional amendment that would place a “hard cap” on future state spending.

Budget negotiations at this point are centering on these overarching pieces of budget “architecture.” In lieu of the revenues associated with proposed tax increases, Republicans have been calling for additional borrowing, primarily from funds earmarked for transportation and local government. Initiatives passed by the voters in recent years have placed severe restrictions on the state’s ability to borrow from these sources. Thus, while it may be possible to borrow over \$3 billion from these sources, such borrowing would compound what is already seen as an extremely difficult fiscal condition for the 2009-10 fiscal year.

The Governor’s August Revision calls attention to the enduring difficulty the state faces with the following statement: “Since the May Revision, the economic news has worsened and many forecasters are predicting a slower return to normal growth rates. If, in fact, the economy does not grow at the rates forecast in the May Revision, revenues could decline significantly in 2008-09 and 2009-10, possibly on the order of \$5 billion over the two years. This downside risk to the forecast is all the more reason to enact a balanced budget that does not rely on borrowing from local governments or transportation funds.”

Conclusion

At the time this agenda item was prepared the legislature and the Governor had not concluded deliberations on the 2008-09 budget. Given the nature of the impasse and the dimension of the

budget gap, the level of funding proposed for CSU in the May Revision (and confirmed by the “August Revision” and the legislative budget conference committee plan) remains at risk. The Board will be provided at its meeting with updated information on the 2008-09 budget and the state’s fiscal condition.

REVISED

Information Item
Agenda Item 2
September 16-17, 2008
Page 1 of 3

COMMITTEE ON FINANCE

Report on the 2009-2010 Support Budget

Presentation By

Richard P. West
Executive Vice Chancellor and
Chief Financial Officer

Robert Turnage
Assistant Vice Chancellor
Budget

Summary

Although the legislature had not enacted the state budget for the 2008-09 fiscal year, at the time this report was prepared, the season has begun for considering recommendations to the Governor for the 2009-10 CSU support budget. The Board of Trustees will be provided with an overview of the state's fiscal condition and budget challenges for the 2009-10 fiscal year. The Board will also be presented with revenue and expenditure assumptions under the Higher Education Compact along with CSU budget priorities that will require a state General Fund investment above the Compact funding.

State Budget Overview

At the time this report was prepared—59 days into the 2008-09 fiscal year—the Legislature was still essentially at impasse in overcoming differences between the parties and the Governor as to how to resolve a budget deficit estimated at between \$15 billion and \$17 billion.

The overall fiscal condition of the state's General Fund and future viability of the California economy will play a significant role in the state meeting its budget priorities for the 2009-10 fiscal year. It is already clear that the state faces serious fiscal problems that will endure past the 2008-09 fiscal year. Moreover, the severity of these problems could be compounded by some of the options under discussion in the 2008-09 budget deliberations in the Capitol.

The Governor's August Revision—itsself an indication of the unusual length of the 2008-09 budget impasse—calls attention to the enduring difficulty the state faces with the following statement: "Since the May Revision, the economic news has worsened and many forecasters are predicting a slower return to normal growth rates. If, in fact, the economy does not grow at the rates forecast in the May Revision, revenues could decline significantly in 2008-09 and 2009-10,

possibly on the order of \$5 billion over the two years. This downside risk to the forecast is all the more reason to enact a balanced budget that does not rely on borrowing from local governments or transportation funds.”

Until the 2008-09 budget is finally resolved, any forecast for the state’s 2009-10 fiscal condition carries a wide range of uncertainty. However, even the most optimistic scenario points to continuing fiscal difficulty.

2009-10 CSU Support Budget

Despite the state’s fiscal condition, the CSU will have funding demands for student access, compensation, mandatory costs, financial aid, and long-term need (academic technology, libraries, and deferred maintenance) that need to be brought to the attention of the state. For the three fiscal years 2005-06 through 2007-08, the Higher Education Compact has provided the revenue to support these critical funding issues. We believe that the Compact represents the best starting point for formulating recommendations for the Governor’s 2009-10 budget. Initial projections indicate the CSU will need a minimum of \$333.4 million from the state’s General Fund to fully fund the current provisions of the Compact. Early estimates of expenditures include:

- Mandatory Costs (Health Benefits, New Space, Energy, and Full-Year SSI Comp.) \$37.0 million
- Student Enrollment Growth (2.5 % or 8,572 FTES) \$84.0 million
- Financial Aid (assumes no increase in student fees) \$6.9 million
- Long Term Need ¹ \$44.0 million
- Compensation \$161.5 million

Total **\$333.4 million**

The 2009-10 revenue and expenditure assumptions are preliminary estimates at this time.

In addition to these “Compact” increases (an estimated \$333.4 million), the budget plan would request \$116.7 million for “core needs” that could not be addressed in the current fiscal year due to state funding shortfalls.

And, the CSU has recognized funding priorities “above the Compact” and achieved some success in getting these priorities funded by the Governor and the legislature in prior years. For example, in the 2007-08 fiscal year, the state provided “above Compact” funding to support increasing the number of K-12 math and science teachers (\$2 million) and expanding

¹ Deferred maintenance, libraries, and technology

REVISED

Finance
Agenda Item 2
September 16-17, 2008
Page 3 of 3

baccalaureate nursing programs (\$3.6 million). For planning purposes for 2009-10 we believe the following should be reviewed and considered as CSU funding priorities:

- Clinical Nursing (MSN and BSN) \$ 4.4 million
- Algebra Readiness \$ 3.0 million
- Preparing More Special Education Teachers \$ 1.2 million
- Applied Research \$16.0 million
- Student Services Initiative \$25.0 million
- Compensation (1 percent) \$32.0 million
- ACR 73² \$45.0 million
- Deferred Maintenance (beyond compact) \$25.0 million
- Addressing Off-campus Center Fixed Costs \$ 5.0 million

In an effort to make progress on all these “above Compact” budget priorities CSU would need an additional \$156.6 million.

Conclusion

This is an information item and the Board will be presented with an update on the state’s fiscal condition and an overview of the issues anticipated in the 2009-10 CSU budget at the meeting.

² Funding for additional full-time, tenure-track faculty

COMMITTEE ON FINANCE

2009-2010 Lottery Revenue Budget

Presentation By

Richard P. West
Executive Vice Chancellor and
Chief Financial Officer

Robert Turnage
Assistant Vice Chancellor
Budget

Summary

This is an information item regarding the lottery revenue budget proposal for fiscal year 2009-10. The lottery revenue projection for 2009-10 is \$46 million, with \$41 million available for allocation after setting aside CSU's annual \$5 million systemwide reserve. Lottery revenue reflects a \$2 million increase in projected support from fiscal year 2008-09 based on revenue trends over the past five fiscal years. Beginning reserves are maintained at \$5 million and campuses' interest earnings from lottery allocations are now incorporated in the total revenue earnings achieved under the CSU Revenue Management Program implemented in 2006-07. CSU does not anticipate any additional carry forward funds in 2009-10 above the planned \$5 million budget reserve. The \$5 million reserve is used to assist with cash-flow variations due to fluctuations in quarterly lottery receipts and other economic uncertainties.

2009-10 Lottery Budget Proposal

The \$41 million lottery budget plan proposal will continue to be designated for campus based programs and the three system-designated programs that have traditionally received annual lottery funding support: Chancellor's Doctoral Incentive Program, California Pre-Doctoral program, and CSU Summer Arts Program. The Chancellor's Doctoral Incentive Program will receive \$2 million for financial assistance to graduate students to complete doctoral study in selected disciplines of particular interest and relevance to the CSU. The California Pre-Doctoral Program will receive \$714 thousand to support CSU students who aspire to earn doctoral degrees and who have experienced economic and educational disadvantages. The CSU Summer Arts program will receive \$1.2 million for academic credit courses in the visual, performing, and literary arts.

The remaining \$37.1 million in 2009-10 lottery funds will continue to be used for system program administration and campus based programs. The lottery revenue provides a source of funds that allow presidents maximum flexibility in meeting unique needs through campus based programs. Traditionally, projects receiving campus based funds have included the purchase of new instructional equipment, equipment replacement, curriculum development, and scholarships.

The following table summarizes how lottery funds allocated for the 2007-08 fiscal year were expended.

2007-08 Lottery Expenditure Report		
Program Support Area	Expense	Percent of Total
Academic	\$34,161,376	59%
Library Services	\$10,078,456	17%
Student Services	\$5,487,027	9%
Administration	\$3,188,303	5%
University Maintenance	\$1,756,673	3%
Financial Aid	\$1,727,470	3%
Community Relations	\$1,733,475	3%
	\$58,132,782	100%

Ninety-five percent of lottery allocations are spent on supplemental programs and services for students and faculty.

The CSU lottery revenue budget proposed for 2009-10 is as follows:

2009-10 Proposed Lottery Revenue Budget

	2008-09 Adopted Budget	2009-10 Proposed Budget
Sources of Funds		
Beginning Reserve	\$ 5,000,000	\$ 5,000,000
Receipts	39,000,000	41,000,000
Total Revenues	\$ 44,000,000	\$ 46,000,000
<i>Less Systemwide Reserve</i>	<i>(5,000,000)</i>	<i>(5,000,000)</i>
Total Available for Allocation	\$ 39,000,000	\$ 41,000,000
Uses of Funds		
<i>System Programs</i>		
Chancellor's Doctoral Incentive Program	\$ 2,000,000	\$ 2,000,000
California Pre-Doctoral Program	714,000	714,000
CSU Summer Arts Program	1,200,000	1,200,000
Program Administration	491,000	491,000
	\$ 4,405,000	\$ 4,405,000
<i>Campus Based Programs</i>		
Campus/CO Programs	\$ 34,595,000	\$ 36,595,000
Total Uses of Funds	\$ 39,000,000	\$ 41,000,000

This item is for information only and an agenda item will be presented at the November meeting to adopt the 2009-10 Lottery Revenue Budget.

COMMITTEE ON FINANCE

Annual Investment Report

Presentation By

Colleen Nickles
Assistant Vice Chancellor
Financial Services

Summary

This item presents the annual investment report for fiscal year 2007-08 for funds managed under the California State University (CSU) Investment policy.

The CSU Systemwide Investment Fund-Trust (SWIFT) was established in 2007 for the purpose of enhancing centralized cash and investment management through the daily sweeping of available cash balances and pooling of cash into a centralized investment account. The new SWIFT structure replaced the CSU's existing banking and short-term investment structure, which was dependent on campuses withdrawing available balances from bank accounts and transferring that cash to the short-term investment manager, Wachovia Portfolio Services (WPS), formerly known as Metropolitan West Securities. The old structure was dependent on State of California depository and disbursement bank accounts, and the State managed and controlled any investable balances.

The new SWIFT structure utilizes Chancellor's Office and campus-controlled bank depository and disbursement accounts from which investable cash is pooled on a daily basis. The transition from the old structure to the new structure, which was made possible by amendments to the Education Code and the subsequent implementation of the Revenue Management Program, took place over the period of February to June 2007. On July 2, 2007 all features of the new structure were put into place with the transfer of \$1.3 billion of cash and investments to US Bank, the custodial bank for SWIFT. The cash and securities received by US Bank were divided equally between two investment management firms, FAF Advisors and WPS, who were selected based on a competitive request for proposal process.

As of June 30, 2008, the CSU had \$1.688 billion invested in SWIFT.

The Annual Investment Report has been prepared by the Chancellor's Office and provides additional information on the results of the investment program for the fiscal year ended June 30, 2008.

The State Treasurer also provides investment vehicles that may be used for CSU funds. The Surplus Money Investment Fund (SMIF) is used by the State Treasurer to invest state funds in a short-term pool. The Local Agency Investment Fund (LAIF) is used by the State Treasurer to invest local agency funds. The year-end results for these two funds are reported in Attachment A.

The Board of Trustees' Investment Policy is included as Attachment B.

Market Summary

The fiscal year ended June 30, 2008 was marked by instability in the financial markets, driven primarily by deterioration in the subprime mortgage market, the housing slump, and stress in the credit markets, as financial firms experienced significant write-downs and sought new capital to bolster their balance sheets. The uncertainty even affected liquidity in normally stronger, higher rated investment sectors, prompting a flight to quality (i.e. Treasuries) during certain periods of the year.

Along with the housing slump, rising gas prices, higher unemployment, and inflation fears, the instability in the financial markets contributed to a sluggish economy during the year. In response to this difficult environment, the Federal Reserve has continued to be accommodating, notwithstanding growing concerns about inflation. The Federal Reserve actions included the extraordinary steps of giving investment banks access to the Fed discount window, providing \$30 billion in funding to facilitate the bail-out of Bear Stearns and dropping the overnight federal funds target rate from 5.25% in June 2007 to 2.00% at the end of June 2008 to help increase liquidity in the credit markets and potentially stimulate economic growth. Similarly, the U.S. Treasury 2-year Note rate fell from 4.87% in June 2007 to 2.63% in June 2008.

Investment Account Performance

As of June 30, 2008, the asset balance in the SWIFT totaled \$1.688 billion. The objective of the SWIFT is to maximize current income while preserving capital and liquidity. Consistent with the CSU investment policy, the portfolio is restricted to high quality, fixed income securities. State law prohibits the investment of these funds in equity securities.

As of June 30, 2008, the SWIFT portfolio's holdings by sector were as follows:

**California State University Systemwide Investment Fund-Trust
 Sector Breakdown as of
 June 30, 2008**

Cash	0.03%
US Treasuries	0.24%
US Government Agencies	15.75%
Corporate Securities	32.78%
Commercial Paper	51.20%

The SWIFT provided a return of 4.54% during the 12 months ended June 30, 2008. This return was less than the benchmark for the portfolio, which is a treasury based index and benefitted from the flight to quality during certain periods of the year. However, the SWIFT outperformed the 12-month return for the Local Agency Investment Fund (“LAIF”).

	<u>SWIFT Portfolio</u>	<u>SWIFT Benchmark¹</u>	<u>LAIF</u>
1 month Return	0.23%	0.22%	N/A
3 Month Return	0.74%	-0.47%	0.77%
12 Month Return	4.54%	6.27%	4.33%
Annualized Return since SWIFT Inception	4.54%	6.27%	4.33%

(1) Merrill Lynch 0-3 Year Treasury Index

Surplus Money Investment Fund (SMIF)

The Surplus Money Investment Fund (SMIF) is a vehicle used by the State Treasurer to invest state funds in a short-term pool. Cash on this account is available on a daily basis. SMIF is managed by the State Treasurer's Office. The portfolio's composition includes CD's and Time Deposits, U.S. Treasuries, Commercial Paper, Corporate Securities, and U.S. Government Agencies. As of June 30, 2008, the amount of CSU funds invested in SMIF was \$41.7 Million.

SMIF Performance Report Apportionment Yield Rate

SMIF Past Performance 1999-2008

06/30/2008	3.11%	Average	3.86%
06/30/2007	5.24%	High	6.49%
		Low	1.44%

Local Agency Investment Fund (LAIF)

The Local Agency Investment Fund (LAIF) is a vehicle used by the State Treasurer to invest local agency funds. LAIF is administered by the State Treasurer's Office. All investments are purchased at market, and market valuation is conducted quarterly. As of June 30, 2008, the amount of CSU funds invested in LAIF was approximately \$34,000.

LAIF Performance Report Apportionment Yield Rate

LAIF Past Performance 1999-2008

06/30/2008	3.11%	Average	3.99%
06/30/2007	5.24%	High	6.53%
		Low	1.45%

The California State University Investment Policy

The following investment guidelines have been developed for CSU campuses to use when investing funds.

Investment Policy Statement

The objective of the investment policy of the California State University (CSU) is to obtain the best possible return commensurate with the degree of risk that the CSU is willing to assume in obtaining such return. The Board of Trustees desires to provide to each campus president the greatest possible flexibility to maximize investment opportunities. However, as agents of the trustees, campus presidents must recognize the fiduciary responsibility of the trustees to conserve and protect the assets of the portfolios, and by prudent management prevent exposure to undue and unnecessary risk.

When investing campus funds, the primary objective of the campus shall be to safeguard the principal. The secondary objective shall be to meet the liquidity needs of the campus. The third objective shall be to return an acceptable yield.

Investment Authority

The California State University may invest monies held in local trust accounts under Education Code Sections 89721 and 89724 in any of the securities authorized by Government Code Section 16430 and Education Code Section 89724, listed in Section A subject to limitations described in Section B.

A) State Treasury investment options include:

- Surplus Money Investment Fund (SMIF)
- Local Agency Investment Fund (LAIF)

B) Eligible securities for investment outside the State Treasury, as authorized by Government Code Section 16430 and Education Code Section 89724, include:

- Bonds, notes or obligations with principal and interest secured by the full faith and credit of the United States;
- Bonds, notes or obligations with principal and interest guaranteed by a federal agency of the United States;
- Bonds or warrants of any county, city, water district, utility district or school district;

- California State bonds or bonds with principal and interest guaranteed by the full faith and credit of the State of California;
- Various debt instruments issued by: (1) federal land banks, (2) Central Bank for Cooperatives, (3) Federal Home Loan Bank Bd., (4) National Mortgage Association, (5) Federal Home Loan Mortgage Corporation, and (6) Tennessee Valley Authority;
- Commercial paper exhibiting the following qualities: (1) “prime” rated, (2) less than 180 days maturity, (3) issued by a U.S. corporation with assets exceeding \$500,000,000, (4) approved by the PMIB. Investments must not exceed 10 percent of corporation’s outstanding paper, and total investments in commercial paper cannot exceed 30 percent of an investment pool;
- Bankers’ acceptances eligible for purchase by the Federal Reserve System;
- Certificates of deposit (insured by FDIC, FSLIC or appropriately collateralized);
- Investment certificates or withdrawal shares in federal or state credit unions that are doing business in California and that have their accounts insured by the National Credit Union Administration;
- Loans and obligations guaranteed by the United States Small Business Administration or the United States Farmers Home Administration;
- Student loan notes insured by the Guaranteed Student Loan Program;
- Debt issued, assumed, or guaranteed by the Inter-American Development Bank, Asian Development Bank or Puerto Rican Development Bank;
- Bonds, notes or debentures issued by U.S. corporations rated within the top three ratings of a nationally recognized rating service;

C) In addition to the restrictions established in Government Code Section 16430, the CSU restricts the use of leverage in campus investment portfolios by limiting reverse repurchase agreements used to buy securities to no more than 20 percent of a portfolio. Furthermore, the CSU:

- Prohibits securities purchased with the proceeds of a reverse repurchase from being used as collateral for another reverse repurchase while the original reverse repurchase is outstanding;

- Limits the maturity of each repurchase agreement to the maturity of any securities purchased with the proceeds of the repurchase (but in any event not more than one year) and;
- Limits reverse repurchase agreements to unencumbered securities already held in the portfolio.

Investment Reporting Requirements

- A. Annually, the Chancellor will provide to the Board of Trustees a written statement of investment policy in addition to a report containing a detailed description of the investment securities held by all CSU campuses and the Chancellor's Office, including market values.
- B. Each campus will provide no less than quarterly to the Chancellor a report containing a detailed description of the campus's investment securities, including market values. A written statement of investment policy will also be provided if it was modified since the prior submission. These quarterly reports are required:
- to be submitted to the Chancellor within 30 days of the quarter's end
 - to contain a statement with respect to compliance with the written statement of investment policy; and
 - to be made available to taxpayers upon request for a nominal charge.

(Approved by the CSU Board of Trustees in January, 1997)

COMMITTEE ON FINANCE

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

Presentation By

Colleen Nickles
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 \$283,685,000, to provide funds for three campus projects and one auxiliary project. The Board is being asked to approve a set of resolutions relating to these 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 Revenue Bonds.

The projects are as follows:

1. Fullerton Student Housing and Food Service, Phases III and IV

In November 2007, the Board of Trustees approved the amendment of the non-state capital outlay program. The schematics of the project are being submitted to the Board for approval during the Committee on Campus Planning, Buildings and Grounds at this same September 2008 meeting. The project received a favorable recommendation from the Housing Proposal Review Committee in March 2007. The project will consist of five student housing buildings each with five-stories and a single-story food service facility and central plant structure. The 1,064-bed student housing and the 600-seat food service project will have a total of approximately 339,000 gross square feet and will also have common areas, support spaces, a convenience store, administrative spaces, multipurpose rooms, and meeting rooms. The project site will be located on a 10.25 acre site in Parking Lot E immediately adjacent and southeast of the existing student housing. It will construct a pedestrian concourse to form a 50,000 gross square foot piazza. The piazza will be a key feature of the project that will provide a mix of outside areas for student dining, study and recreation and will mark the entrance to the student housing and food service complex. Parking for 303 spaces will replace parking lot E. This parking lot will later be the site of a new parking structure project. This project will be designed and constructed to meet gold LEED certification by USGBC with significant energy and water use reduction features.

The not-to-exceed par value of the proposed bonds is \$172,905,000, and is based on estimated project costs of \$142,779,000. The financing costs will be fully funded from the bond proceeds. The campus received good bids for the design-build project in July 2008. The campus anticipates a construction start of March 2009 with an estimated completion in July 2011.

The following table provides information about this financing transaction.

Not-to-exceed amount	\$ 172,905,000
Amortization	Graduated payments over 4 years and approximately level over 26 years
Pro-forma maximum annual debt service	\$ 12,794,099
Projected debt service coverage including the new project: ¹	
Net revenue – All Fullerton pledged revenue programs:	1.47
Net revenue – Projected for the campus housing program:	1.04

1. Projected information – Combines 2007-08 unaudited information for the campus-pledged revenue programs and 2012-13 operations of the project with expected full debt service.

The not-to-exceed amount for the project totaling \$172,905,000, the maximum annual debt service, and the ratios above are based on an all-in interest cost of 6.21 % (as of August 4, 2008), reflective of market scale plus 100 basis points as a cushion for changing financial market conditions that could occur before the permanent financing bonds are sold. Given the size of the project, the campus housing program net revenue debt service coverage ratio will be impacted by the debt service for the project. The financial plan includes a graduated amortization of debt service which is a modification to the CSU program standard. The campus has developed a financial plan that has 1.04 times projected program net revenue debt service coverage for the first full year of operations in 2012-13 when calculated using 2007-08 housing revenues plus new project revenues, however, given projected increases to current housing rates combined with new project revenues, the campus forecasts that the combined net revenue debt service coverage will be 1.17. The campus has made a commitment that it will use its program reserves in the event of unforeseen circumstances in operations to fund debt service. The campus' combined net revenue debt service coverage from all pledged revenue programs for the campus is projected at 1.47, which exceeds the CSU's 1.35 times debt service campus benchmark.

2. Humboldt Student Housing Replacement and Addition, Phase I

In March 2007, the Board of Trustees approved the amendment of the non-state capital outlay program, and in March 2008, the Board approved the schematics of the project during its Committee on Campus Planning, Buildings and Grounds. The project received a favorable recommendation from the Housing Proposal Review Committee in March 2007. The project

will provide approximately 434 new beds, replacing 156 beds of student housing in functionally obsolete buildings (Redwood Manor and Mai Kai) which are programmed for demolition, for a net increase in capacity of 278 beds. The proposed seven-acre site is currently used as the campus soccer field. The field will be reoriented and replaced with an all weather turf playfield as part of the project. The project will construct four three-story housing buildings, a community center/convenience store, and a maintenance/support facility, for a total of approximately 137,000 gross square feet.

The not-to-exceed par value of the proposed bonds is \$49,425,000, and is based on estimated project costs of \$47,920,000, with a campus housing reserve contribution of \$5,000,000. Additional financing costs are to be funded from the bond proceeds. The campus received construction bids for this design-bid-build project in late August 2008. The campus anticipates a construction start of September 2008 with an estimated completion in July 2010. However, the campus is working with local city officials to resolve two easements impacting the project site. The financing of the project will be contingent on resolution of this issue and execution of a site certificate that is satisfactory to the Chancellor's Office and General Counsel.

The following table provides information about this financing transaction.

Not-to-exceed amount	\$49,425,000
Amortization	Approximately level over 30 years
Pro-forma maximum annual debt service	\$3,481,900
Projected debt service coverage including the new project: ¹	
Net revenue – All Humboldt pledged revenue programs:	1.34
Net revenue – Projected for the campus housing program:	1.25

1. Projected information – Combines 2007-08 unaudited information for the campus-pledged revenue programs and 2011-12 operations of the project with expected full debt service.

The not-to-exceed amount for the project totaling \$49,425,000, the maximum annual debt service, and the ratios above are based on an all-in interest cost of 6.09% (as of August 8, 2008), reflective of market scale plus 100 basis points as a cushion for changing financial market conditions that could occur before the permanent financing bonds are sold. The financial plan includes level amortization of debt service, which is the CSU program standard. The campus has submitted a financial plan that has a 1.25 times projected program net revenue debt service coverage, which exceeds the CSU benchmark of 1.10. The campus' combined net revenue debt service coverage from all pledged revenue programs for the campus is projected at 1.34, which is slightly below the CSU's 1.35 times debt service campus benchmark.

3. Sacramento Recreation Wellness Center, Phase II

In March 2006, the Board of Trustees approved the amendment of the non-state capital outlay program. The schematics of the project were approved by the Board during its Committee on Campus Planning, Buildings and Grounds in May 2007. The 151,000 gross square feet facility will consist of: 1) Four basketball gyms for recreation sports, a large multi-activity court, four racquetball/handball courts, a climbing wall, and exercise spaces, which include a 15,000 square foot main studio and three large fitness studios; and 2) wellness center, which will house essentially all of the student health services and provide space for urgent care, examinations, consultation clinics, health planning, administration, education services, laboratory services, medical records, pharmacy and clinical services. The location of the facility is at the south end of the campus, near the Hornet Stadium.

The not-to-exceed par value of the proposed bonds is \$58,165,000 and is based on a total project cost of \$71,332,000, of which \$19,900,000 will be funded from student union reserves and \$1,100,000 will be funded from health center reserves. Additional financing costs are to be funded from the bond proceeds. The project delivery method is Construction Manager at Risk. The campus received an acceptable Guaranteed Maximum Price in August 2008. The campus anticipates a construction start of September 2008 with an estimated completion in July 2010.

The following table provides information about this financing transaction.

Not-to-exceed amount	\$58,165,000
Amortization	Approximately level over 30 years
Pro-forma maximum annual debt service	\$4,097,744
Projected debt service coverage including the new project: ¹	
Net revenue – All Sacramento pledged revenue programs:	1.26
Net revenue – Projected for the campus Student Union program:	1.12

1. Projected information – Combines 2007-08 unaudited information for the campus-pledged revenue programs and 2011-12 operations of the project with expected full debt service.

The not-to-exceed amount for the project totaling \$58,165,000, the maximum annual debt service, and the ratios above are based on an all-in interest cost of 6.09% (as of August 13, 2008), reflective of market scale plus 100 basis points as a cushion for changing financial market conditions that could occur before the permanent financing bonds are sold. The financial plan includes level amortization of debt service, which is the CSU program standard. The campus has submitted a financial plan that has a 1.12 times projected program net revenue debt service

coverage, which exceeds the CSU benchmark of 1.10. The campus' combined net revenue debt service coverage from all pledged revenue programs for the campus is projected at 1.26, which is below the CSU's 1.35 times debt service campus benchmark. Included in the campus calculation is the debt obligation of the Broad Athletic Facility which is scheduled to be re-paid in June 2012. Without this obligation, the campus would anticipate to be above the 1.35 benchmark.

**4. California Polytechnic State University, San Luis Obispo
Cal Poly Corporation - The Technology Park Pilot Building Project**

An amendment to the FY 2008-09 Non-State Funded Capital Outlay Program and the schematic design and construction of this auxiliary project are being submitted for approval by the Board of Trustees during its Committee on Campus Planning, Building, and Grounds at this same September 2008 meeting.

Cal Poly Corporation (the "Corporation"), a CSU-recognized auxiliary organization in good standing, is proposing the construction of a 25,000 gross square-foot two-story building, commonly known as the *Technology Park Pilot Building* project (the "Project"). The Project will be a new 20,000 net square foot facility, which will be leased to private high-tech firms. The project design will have the flexibility to accommodate the space, equipment, and office needs of various prospective tenants, including work space for dry and/or wet labs. The Project will serve as a pilot building in a planned technology park with a value-added educational focus toward providing a vital on-campus location for firms engaged in applied research and development to collaborate with university faculty and students.

Total project cost is estimated to be \$6,300,000, of which \$2,000,000 will be funded by private donor contributions and \$1,800,000 by Federal EDA grant, with the remaining portion to be financed by Systemwide Revenue Bonds at a not-to-exceed par amount of \$3,190,000. The project construction is based on a design-build delivery method and is scheduled to begin in January 2009, with completion in June 2010. A good construction bid was received on July 25, 2008.

The bonds will be issued as taxable debt secured by a general obligation pledge of the auxiliary's unrestricted revenues, including rental receipts from the project. The bonds will be amortized over 25 years based on level debt service schedule and a maximum annual debt service of \$284,438. Based on the financial plan, the Corporation demonstrates strong debt service coverage of 6.78, while the project itself provides coverage of 1.16 in fiscal 2011-12, the first full year of project operation, but increasing gradually in subsequent years. The coverage exceeds the CSU benchmark of 1.25 for auxiliary organizations, but does not meet the 1.25 coverage ratio for auxiliary projects, however, the general obligation pledge of the Corporation and the financial strength of the Corporation will ensure repayment of the project bonds. The par amount of the bonds is based on an all-in interest cost of 7.92% (as of August 8, 2008), reflective

of market scale plus 100 basis points as a cushion to account for any market fluctuations that could occur before the permanent financing bonds are sold.

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 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 \$283,685,000, 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 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 projects as described in this Agenda Item X of the Committee on Finance at the September 16-17, 2008, meeting of the CSU Board of Trustees is recommended for:

Fullerton Student Housing and Food Service, Phases III and IV

Humboldt Student Housing Replacement and Addition, Phase I

Sacramento Recreation Wellness Center, Phase II

Cal Poly Corporation - The Technology Park Pilot Building Project