

AGENDA

COMMITTEE ON FINANCE

Meeting: 1:30 p.m., Tuesday, September 21, 2010
Glenn S. Dumke Auditorium

William Hauck, Chair
Linda A. Lang, Vice Chair
Roberta Achtenberg
Nicole M. Anderson
Kenneth Fong
Margaret Fortune
Raymond W. Holdsworth
A. Robert Linscheid
Henry Mendoza
Glen O. Toney
C. C. Yin

Consent Item

Approval of Minutes of Meetings of July 13, 2010

Discussion Items

1. Report on the 2010-2011 Support Budget, *Information*
2. Planning for the 2011-2012 Support Budget, *Information*
3. 2011-2012 Lottery Revenue Budget, *Information*
4. California State University 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. Dumke Conference Center
401 Golden Shore
Long Beach, California**

July 13, 2010

Members Present

William Hauck, Chair
Linda A. Lang, Vice Chair
Raymond W. Holdsworth
Herbert L. Carter, Chair of the Board
Kenneth Fong
Margaret Fortune
A. Robert Linscheid
Glen O. Toney
C. C. Yin

Approval of Minutes

The minutes of May 11, 2010, and June 18, 2010, were approved by consent as submitted.

Report on the 2010-2011 Support Budget

After a brief introduction by Executive Vice Chancellor and Chief Financial Officer Benjamin F. Quillian, Assistant Vice Chancellor for Budget Robert Turnage presented this information item. Mr. Turnage noted that the budget conference committee has been meeting in Sacramento for several weeks, resulting in positive action on a number of CSU capital outlay projects. He explained that until an agreement at a leadership level is reached, it is unlikely that the committee will take action on the support budget. He noted that any quick action most likely will stem from a Democratic-only plan, rather than one that will get a two-thirds vote. There were no questions.

Approval to Amend the Resolutions to Sell Bond Anticipation Notes and Bonds for Three Projects

Assistant Vice Chancellor of Financial Services George Ashkar presented the item, which requests board approval to amend the resolutions authorizing the sale of Bond Anticipation Notes (BANs) and Systemwide Revenue Bonds (Bonds) for three projects previously authorized by the board in an aggregate not-to-exceed amount of \$35,660,000. The three projects currently

authorized for financing with the expectation that they will remain in BANs/commercial paper until the debt is retired are: (1) University Enterprises, Inc. (Sacramento)—Broad Athletic Facility, (2) The University Corporation (Northridge)—Performing Arts Center Project, and (3) Auxiliary Services Corporation (Fullerton)—Faculty/Staff Housing Refinance Project.

Chair Hauck explained how this request reduces the outstanding indebtedness amount. In fact, since the time the projects originally were approved, that amount has been reduced from \$36.5 million to \$27.3 million. Mr. Ashkar further requested the following: (1) to extend the time limit for the commercial paper financing for the three projects; and (2) to extend the time limit for the issuance of bonds or BANs for the period consistent with the retirement of debt. In addition, Mr. Ashkar explained that due to the law change in 2008—expunging the three-year limitation for BAN maturities—the need to return to the board for further extensions may be required. The board gave approval to amend the resolutions to sell bond anticipation notes and bonds for three projects (RFIN 07-10-07).

Trustee Hauck adjourned the Committee on Finance.

COMMITTEE ON FINANCE

Report on the 2010-2011 Support Budget

Presentation By

Robert Turnage
Assistant Vice Chancellor
Budget

Summary

The May revision of the 2010-11 governor's budget identifies a \$19.1 billion budget shortfall. The governor proposes solving this gap with a heavy emphasis on expenditure reductions and assumed new federal funds. On August 31, the last day of the legislature's 2009-10 regular session, separate Democratic and Republican spending plans fell short of the necessary two-thirds vote requirement. At the time this agenda item was prepared, it remained unclear when the budget impasse would be resolved and what the final amount of the CSU support budget would be.

Despite the state's fiscal condition, the governor has made higher education a central priority of his 2010-11 budget. The governor's budget provides similar treatment to the CSU and the University of California (UC). For each system, the budget (1) restores \$305 million of one-time cuts made in 2009-10 and (2) provides 2.5 percent enrollment growth. In August, the legislature's budget conference committee approved the governor's proposed amounts. At the time of the vote, however, some committee members expressed doubts that these amounts could be sustained through the final budget negotiations. The conference committee eliminated the Assembly proposal to limit this year's State University Fee increase to five percent by providing compensating funds to the CSU. In June, the Board of Trustees approved a five percent fee increase, consistent with the Assembly proposal, with the understanding that, in November, the board would review actions taken by the state on the 2010-11 CSU budget and any consequent need for additional fee revenues.

In late August the federal Department of Education approved California's last installment from the State Fiscal Stabilization Fund established by Congress in the 2009 American Recovery and Reinvestment Act (ARRA). Based on this approval, the legislature passed AB 185 to appropriate these one-time federal funds, including an appropriation to the CSU of \$106 million. (An equal amount was appropriated to the University of California.) These funds will be distributed to the campuses on an expedited basis. However, earlier distributions from this federal source were

followed by offsetting reductions to state funding to the university, and this pattern could occur again in the final enacted state budget for 2010-11.

The lateness of the state budget and the continuing high degree of uncertainty regarding the final amount are creating special challenges for the CSU in planning for the upcoming winter and spring terms. At the time of preparation of this agenda item, there was no indication that a compromise budget plan that could secure the necessary two-thirds vote of each house, as well as the governor's signature, was in sight.

Conclusion

The board will be provided with a further and more detailed update on budget developments at its September meeting.

COMMITTEE ON FINANCE

Planning for the 2011-2012 Support Budget

Presentation By

Robert Turnage
Assistant Vice Chancellor
Budget

Summary

As part of the preparation of the governor's budget for the 2011-2012 fiscal year, the Board of Trustees will be provided with an overview of the state's fiscal condition, recommendations to the Department of Finance for the CSU support budget, and budget challenges for 2011-12. The board will be presented with preliminary assumptions for purposes of crafting a budget request that will come back to the board for review and approval in November.

2011-2012 State Budget Overview

It is exceedingly difficult to plan a support budget for 2011-12 when the state has not enacted a budget for 2010-11. The state constitution requires the submittal of the governor's budget proposal each year by January 10, however, and in order to meet the consequent deadlines for the submittal of budget requests to the Department of Finance, it is necessary to commence planning now.

The governor's May revision identified a \$19.1 billion budget shortfall for the 2010-11 fiscal year that proposes solutions with an emphasis on expenditure reductions and assumed new federal funds. At the time this agenda item was prepared, reportedly there was general agreement in the capitol on how to resolve approximately \$15 billion of the shortfall, leaving a \$4 billion separation between the alternative spending plans of Democrats and Republicans. Understanding that a final spending plan has yet to be adopted, it is likely that state general fund expenditures will approach \$85 billion in 2010-11. This is \$18 billion less than the peak general fund spending of \$103 billion that occurred in 2007-08.

The fiscal challenges of the state may become more severe in 2011-12. National and state economic recovery remain weak and many economists are warning of the possibility of a "double dip" recession. Moreover, even if economic recovery continues, the projected improvement in "baseline" general fund revenues will be impacted by the impending expiration (under current state law) of three temporary tax increases approved in February 2009 (income,

and sales taxes and vehicle license fee). The Legislative Analyst's Office estimates the general fund revenue loss from this effect to be close to \$9 billion in 2011-12. Therefore, it is likely that total general fund revenues for the State of California in 2011-12 will be less than total revenues in 2010-11.

2011-2012 CSU Support Budget—Preliminary Planning Approach

Despite the state's fiscal condition, the CSU has legitimate funding needs in order to carry out its critically important mission for California. In this agenda item we share with the board a preliminary plan for the crafting of a CSU support budget request for 2011-12. This plan has received input from campus and system leaders, including the Systemwide Budget Advisory Committee, which has broad representation from campus presidents, academic senate, alumni, labor, and students. The planning approach is tempered by a recognition of the state's ongoing fiscal challenge, yet represents a credible statement of the university's key funding needs.

Planning Framework. The recommended planning framework is summarized as follows. These recommended items will require new ongoing revenues. The dollar amounts are preliminary and approximate:

- | | |
|---|--------------------|
| • Replace one-time federal funds | \$106 million. |
| • Mandatory costs (health and dental benefits, new space, energy) | \$45 million. |
| • Compensation increase (3 percent "pool") | \$90 million. |
| • Access to Success/Graduation Initiative/Early Start | \$56 million. |
| • Enrollment growth (2.5 percent) | \$60 million. |
| • "Long term needs" (technology, libraries, facility maintenance) | \$47 million. |
| Total ongoing revenue increase | \$404 million. |

Estimated amounts for each item on the list may be revised, based on updated information, in the course of preparing the budget for the board's review and approval in November.

Conclusion

This is an information item, presenting a preliminary framework for the 2011-12 support budget request. The board will be presented with an updated and detailed budget recommendation in November as an action item.

REVISED

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COMMITTEE ON FINANCE

2011-2012 Lottery Revenue Budget

Presentation By

Robert Turnage
Assistant Vice Chancellor
Budget

Summary

The lottery revenue budget proposal for fiscal year 2011-12 is presented as an information item. The lottery revenue projection for 2011-12 is \$44 million. After setting aside \$3 million for CSU's systemwide reserve, \$41 million is available for allocation. AB 142 was enacted April 8, 2010 with the intent to keep state lottery allocations to higher education constant or higher with each subsequent year. However, because lottery revenue allotted to CSU is based on enrollment actuals from the prior year and because enrollment has declined, the actual amount of lottery revenue allotted to CSU is uncertain. Therefore, CSU's lottery revenue reflects no increase in projected support from fiscal year 2010-11.

Beginning CSU lottery reserves are \$3 million, and campuses' interest earnings from lottery allocations are incorporated in their total revenue earnings achieved under the CSU Revenue Management Program. CSU does not anticipate any additional carry forward funds in 2011-12 above the planned \$3 million budget reserve. The \$3 million reserve is used to assist with cash-flow variations due to fluctuations in quarterly lottery receipts and other economic uncertainties.

2011-12 Lottery Budget Proposal

The \$41 million lottery budget plan proposal will continue to be designated to campus based programs, Board of Trustees continuing support of \$2 million for improvement in campus academic 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 \$35.1 million in 2011-12 lottery funds will continue to be used for system program administration and campus based programs. The campus based programs represent a significant source of funds that allow presidents maximum flexibility in meeting unique campus needs. Traditionally, projects receiving campus based funds have included the purchase of new instructional equipment, equipment replacement, curriculum development, and scholarships.

Ninety-eight percent of lottery allocations are spent on supplemental programs and services for students and faculty. The following table summarizes how lottery funds allocated for the 2009-10 fiscal year were expended.

2009-10 Lottery Expenditure Report

| Program Support Area | Expense | Percent of Total |
|-----------------------------|----------------------|-------------------------|
| Academic | \$ 24,459,112 | 58% |
| Library Services | \$ 9,723,739 | 23% |
| Student Services | \$ 4,729,780 | 11% |
| Financial Aid | \$ 1,408,545 | 3% |
| Administration | \$ 1,237,815 | 3% |
| Community Relations | \$ 463,323 | 1% |
| University Maintenance | \$ 423,959 | 1% |
| | \$ 42,446,273 | 100% |

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The CSU lottery revenue budget proposed for 2011-12 is as follows:

2011-12 Proposed Lottery Revenue Budget

| | 2010-11 Adopted Budget | 2011-12 Proposed Budget |
|---|---------------------------------------|--|
| Sources of Funds | | |
| Beginning Reserve | \$ 5,000,000 | \$ 5,000,000 |
| Receipts | 39,000,000 | 39,000,000 |
| Total Revenues | \$ 44,000,000 | \$ 44,000,000 |
| <i>Less Systemwide Reserve</i> | <i>(3,000,000)</i> | <i>(3,000,000)</i> |
| | - | - |
| Total Available for Allocation | \$ 41,000,000 | \$ 41,000,000 |
| Uses of Funds | | |
| | 0 | 0 |
| System Programs | 0 | 0 |
| Academic Program Support | \$ 2,000,000 | \$ 2,000,000 |
| 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 |
| | \$ 6,405,000 | \$ 6,405,000 |
| <i>Campus Based Programs</i> | 0 | 0 |
| Campus/CO Programs | \$ 34,595,000 | \$ 34,595,000 |
| | \$ - | \$ - |
| Total Uses of Funds | \$ 41,000,000 | \$ 41,000,000 |

This item is for information only and an agenda item will be presented at the November 2010 meeting to adopt the 2011-2012 lottery revenue budget.

COMMITTEE ON FINANCE

California State University Annual Investment Report

Presentation By

George V. Ashkar
Assistant Vice Chancellor
Financial Services

Summary

This item provides the annual investment report for fiscal year 2009-2010 for funds managed under the California State University investment policy.

Background

The bulk of CSU funds are invested through the CSU Systemwide Investment Fund-Trust (SWIFT), which was established in July 2007 for the purpose of enhancing centralized cash and investment management. On a daily basis, net investable cash, from chancellor's office and campus-controlled bank depository and disbursement accounts, is pooled and moved into SWIFT for investment. All SWIFT cash and securities are held by US Bank, the custodian bank for SWIFT, and for investment management purposes, the SWIFT portfolio is divided equally between two investment management firms, FAF Advisors and Wells Capital Management.

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, or funds held by the State on behalf of State agencies, 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's investment policy is included as Attachment B.

Market Summary

The fiscal year ended June 30, 2010 was marked by an economic recovery hampered by the ongoing housing slump, modest declines in unemployment, the European Union fiscal crisis, the BP oil spill disaster, stress in the banking sector due to the new regulatory reform act, the worsening financial condition of state and local governments, and the specter of a possible double-dip recession. The economy grew in the fiscal year with GDP increasing by 3.2%.

However, in the last quarter of the fiscal year, the economy grew at a relatively slow pace of 2% and financial markets showed concerns over European debt with credit spreads widening.

In response to the ongoing difficult environment, the Federal Reserve continued to be accommodating, notwithstanding concerns about inflation, and left the federal funds rate target unchanged at the 0.0% to 0.25% range, indicating that the rate may stay exceptionally low for an extended period. During the final quarter of the fiscal year, the financial markets focus changed from conversations about Federal Reserve exit strategies and improving credit conditions toward additional monetary and fiscal stimulus to fight off a potential double-dip recession and a stubbornly high unemployment rate.

Investment Account Performance

As of June 30, 2010, the asset balance in the SWIFT portfolio totaled \$2.06 billion. The objective of SWIFT is to maximize current income while preserving and prioritizing asset safety and liquidity. Consistent with the CSU investment policy and state law, the portfolio is restricted to high quality, fixed income securities.

As of June 30, 2010, the SWIFT portfolio's holdings by asset type were as follows:

**California State University Systemwide Investment Fund-Trust
Asset Breakdown as of
June 30, 2010**

| | |
|---------------------------------|---------------|
| Cash | 0.23% |
| US Treasuries | 0.14% |
| US Government Agencies | 46.62% |
| FDIC Guaranteed | 12.26% |
| Corporate Securities—Long Term | 3.87% |
| Corporate Securities—Short Term | <u>36.88%</u> |
| | 100.00% |

The SWIFT portfolio provided a return of 0.63% during the 12 months ended June 30, 2010. 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. Additionally, because of budget pressures at the state level and the possibility that the CSU might need to use its own funds to meet operating requirements during a prolonged budget impasse, the current SWIFT portfolio strategy has been defensive, emphasizing high liquidity and resulting in a much shorter maturity profile with lower returns.

| | <u>SWIFT Portfolio</u> | <u>SWIFT Benchmark¹</u> | <u>LAIF</u> |
|---|----------------------------|--|-------------|
| 1 Month Return | 0.03% | 0.34% | N/A |
| 3 Month Return | 0.08% | 0.89% | 0.14% |
| 12 Month Return | 0.63% | 2.06% | 0.66% |
| Annualized Return since SWIFT Inception | 2.56% | 3.91% | 2.39% |

(1) Merrill Lynch 0-3 Year Treasury Index

Surplus Money Investment Fund (SMIF)

The Surplus Money Investment Fund (SMIF) is a vehicle used and managed by the State Treasurer to invest state funds, or funds held by the state on behalf of state agencies, in a short-term pool. Cash in this account is available on a daily basis. 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, 2010, the amount of CSU funds invested in SMIF was approximately \$111.7 million.

SMIF Performance Report Apportionment Yield Rate

QE 06/30/10 0.56%
QE 06/30/09 1.51%

SMIF Past Performance Quarterly Apportionment Yield Rate

2001-2010
Average 3.07%
High 6.49%
Low 0.55%

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, 2010, the amount of CSU funds invested in LAIF was approximately \$9,100.

LAIF Performance Report Apportionment Yield Rate

QE 06/30/10 0.56%
QE 06/30/09 1.51%

LAIF Past Performance Quarterly Apportionment Yield Rate

2001-2010
Average 3.04%
High 6.53%
Low 0.56%

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

George V. Ashkar
Assistant Vice Chancellor
Financial Services

Summary

This item requests the board authorize the issuance of Systemwide Revenue Bonds of the California State University in an aggregate not-to-exceed amount of \$98,855,000 to provide financing for two campus projects. The board is asked to approve resolutions related 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. San José Student Union Expansion and Renovation

In March 2009, the board approved the amendment of the non-state capital outlay program and schematics for the San José student union expansion and renovation project. The project consists of an expansion and renovation of the existing facility, which opened in 1972. The expansion will provide additional administrative office space, expanded food service facilities, a new auditorium/theater, additional large event, meeting, and conference facilities, and student organization and retail spaces. The renovation will include seismic upgrades to the existing facility along with modernization to administrative office space, large event and meeting rooms, student recreation and entertainment facilities, and existing food service areas. The project also will demolish an existing 50-year-old cafeteria building and replace it with similar food services. The increase to student body center fees supporting this project, as well as a future aquatic center that is not part of this request, was approved through an alternative consultation process, providing for an annual graduated student fee increase that started in 2007-08 with an increase from \$126 to \$156 per semester and increases to \$329 per semester in 2012-13.

The not-to-exceed par value of the proposed bonds is \$74,300,000 and is based on an estimated total project cost of \$89,822,000, with a campus student union reserve contribution of \$26.6 million. Additional financing costs are to be funded from the bond proceeds. The campus

received good construction bids in August 2010, and anticipates a construction start in October 2010 with a completion in June 2013.

The following table summarizes key information about this financing transaction.

| | |
|---|-----------------------------------|
| Not-to-exceed amount | \$74,300,000 |
| Amortization | Approximately level over 30 years |
| Projected maximum annual debt service | \$5,109,178 |
| Projected debt service coverage including the new project: Net revenue – All San Jose pledged revenue programs: ¹ | 1.46 |
| Net revenue – Projected for the campus student union program: | 1.81 |

1. Combines 2009-10 information for all campus pledged revenue programs and projected 2013-14 operations of the project with expected full debt service. The program ratio incorporates a fee increase for a future aquatic center, the timing of which has not yet been determined. Program and campus debt service coverage ratios will be reevaluated per board standards when the aquatic center is presented to the board for financing approval.

The not-to-exceed amount for the project, the maximum annual debt service, and the ratios above are based on an all-in interest cost of 5.85%, reflective of market conditions 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 financial plan projects a program net revenue debt service coverage of 1.81 in the first full year of operations in 2013-14, which exceeds the CSU benchmark of 1.10. With the new project, the campus' overall net revenue debt service coverage for the first full year of operations is projected to be 1.46, which exceeds the CSU benchmark of 1.35.

2. East Bay Parking Structure 1

In January 2010, the board approved the amendment of the non-state capital outlay program, and in March 2010, the board approved schematics, for the East Bay parking structure 1 project, including a separate parking services building adjacent to the proposed parking structure. The project will be located in the southeastern area of the campus. The parking structure will be six-levels and provide approximately 1,100 new parking spaces. The parking services building will include a lobby with service counter, administrative offices, and restrooms. A final hearing on two CEQA lawsuits filed by the City of Hayward and local residential homeowners' associations challenging the board's September 2009 approval of the Hayward campus master plan revision and Final EIR currently is scheduled for September 9, 2010. The approved master plan Revision and Final EIR included analysis of the parking structure 1 project. A trial court decision is expected within 90 days of the final hearing date.

The not-to-exceed par value of the proposed bonds is \$24,555,000 and is based on an estimated total project cost of \$21,986,000. Additional financing costs are to be funded from the bond proceeds. The campus received good construction bids in August 2010, and anticipates a construction start in October 2010 with a completion in December 2011.

The following table summarizes key information about this financing transaction.

| | |
|---|-----------------------------------|
| Not-to-exceed amount | \$24,555,000 |
| Amortization | Approximately level over 25 years |
| Projected maximum annual debt service | \$1,796,600 |
| Projected debt service coverage including the new project: | |
| Net revenue – All East Bay pledged revenue programs: ¹ | 1.32 |
| Net revenue – Projected for the campus parking program: | 1.55 |

1. Combines 2009-10 information for all campus pledged revenue programs and projected 2012/13 operations of the project with expected full debt service.

The not-to-exceed amount for the project, the maximum annual debt service, and the ratios above are based on an all-in interest cost of 5.67%, reflective of adjusted market conditions 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 financial plan projects a program net revenue debt service coverage of 1.55 in the first full year of operations in 2012-13, which exceeds the CSU benchmark of 1.10. When adding the new project to 2009-10 campus financial information, the campus' overall net revenue debt service coverage for the first full year of operations is projected to be 1.32, which is slightly below the CSU benchmark of 1.35. However, for both the program and the campus debt service coverage ratios, the forecasts indicate improving trends with a projected campus coverage of 1.48 in 2012-13. The campus forecasts have taken into account expected enrollment targets in the current environment. Campus performance will be monitored closely to ensure that the campus meets its debt service coverage ratios as expected.

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 a not-to-exceed amount of \$98,855,000 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 5 of the Committee on Finance at the September 21-22, 2010, meeting of the CSU Board of Trustees is recommended for:

San Jose Student Union Expansion and Renovation

East Bay Parking Structure 1