

AGENDA

COMMITTEE ON FINANCE

Meeting: 11:15 a.m., Tuesday, March 22, 2011
Glenn S. Dumke Auditorium

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

Consent Items

Approval of Minutes of Meeting of January 25, 2011

Discussion Items

1. Report on the 2011-2012 Support Budget, *Information*
2. Report from the Auxiliary Review Committee, *Information*
3. Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for a Project, *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**

January 25, 2011

Members Present

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

Approval of Minutes

The minutes of November 9, 2010, were approved by consent as submitted.

The committee heard from public speaker Pat Gantt.

Report from the Auxiliary Review Committee

Executive Vice Chancellor Emeritus Richard West presented for information the work of the Review Committee, which has looked at various issues related to the auxiliary organizations of the California State University (CSU) involving public policy as well as external and internal control issues.

Mr. West indicated the committee met September through December 2010 and included campus presidents and vice presidents, as well as the student trustee. The vice chancellors and the university auditor also attended the meetings.

Mr. West shared a PowerPoint presentation with the Committee on Finance outlining Chancellor Reed's charge and the general information the committee reviewed. Mr. West described the existing controls such as 501(c)3 compliance and presidential oversight and emphasized that while there have been questions raised with respect to whether policies have been followed, there

has not been any identification of misappropriation of funds or inappropriate use of funds according to purpose. Mr. West described the recommendations the committee has identified.

Finally, Mr. West acknowledged that while auxiliary organizations are complex organizations unique to the CSU, there is tremendous tradition associated with auxiliaries, harking back to the 1920s and 1930s. There is policy and law governing their activities. In most cases, auxiliaries give the university some necessary flexibility to accomplish actions the university is prohibited from doing or is not funded to accomplish. If used properly and consistently, auxiliaries provide a valuable service to the university.

The Committee on Finance asked about the process should an external audit report identify management concerns or exceptions. Mr. West explained that the control process would designate the president and the campus CFO to follow-up with those auxiliaries to ensure those recommendations are cleared. In addition, the internal auditor and Chancellor's Office staff must be satisfied that exceptions have been cleared.

Then, the Committee on Finance discussed the need for training for new staff or board members and to create a process so that the final report might even include a document describing how the auxiliaries function as well as the relationship and responsibilities to the university itself.

University Auditor Larry Mandel stated that a third of all auxiliaries are reviewed each year. The Committee briefly made note of legal liability, insurance coverage, and indemnity provisions as part of operating agreements.

Lieutenant Governor Gavin Newsom recognized that the review committee has identified issues and will make recommendations related to operational transparency, fund management, internal controls, cost reimbursement and compliance with not-for-profit requirements. After he questioned the timeline, Mr. West stated the final report will be issued in early February 2011. Mr. West identified Executive Vice Chancellor Benjamin Quillian as a key point person for implementation.

Report on the 2011-2012 Support Budget

As an information item, Executive Vice Chancellor Benjamin F. Quillian and Assistant Vice Chancellor for Budget Robert Turnage presented the report on the 2011-2012 support budget. Dr. Quillian acknowledged that most of his time has been devoted to assisting in the identification of strategies to cope with the drastic budget reductions the system expects to receive next fiscal year. He noted that the Department of Finance set the CSU's 2011-2012 baseline budget at a little less than \$2.8 billion. However, the governor reduced the CSU's budget to just under \$2.3 billion—a half billion dollar reduction. He pointed out that \$2.3 billion is approximately the same amount the CSU received from the state in 1999-2000, the CSU is now serving 70,000 more students, and options for belt-tightening are limited.

In the last funding downturn—2009-2010—the CSU reduced travel, IT costs, and equipment. Expenditures were reduced in almost all categories of the core operating budget for a total of over \$461 million. In addition, the CSU implemented enrollment cuts, employee furloughs, student tuition increases, workforce reductions, cuts to administration and a variety of other cost-cutting measures. Dr. Quillian noted that along with working together with presidents to develop strategies to meet the challenge, the CSU has maintained conservative planning assumptions.

Next, Mr. Turnage provided the committee more details on the budget explaining that the state has been mired in fiscal crisis since 2008. He stated that the recession beginning that same year by any measure is the most punishing the California economy has experienced since the Great Depression of the 1930s.

With this in mind, the budget presented by Governor Brown on January 10 is very challenging for all public programs, but certainly for higher education. The governor's budget identifies a \$26 billion budget deficit and proposes to solve it about evenly between revenues and spending cuts. He continued to explain that the revenues are largely dependent on a special election that the governor would like to see held in June in an effort to persuade state voters to approve five-year extensions of temporary tax increases that are scheduled to expire on or before June 30, 2011. In the area of spending cuts, the governor has proposed \$500 million for each University system. The governor has not specified the consequences of failure to secure these revenues. Clearly, however, the loss of these revenues raises the potential for significant additional cuts to the CSU. Mr. Turnage stated that 84 percent of the CSU's expenditures include salaries and benefits. He also noted that it is not possible to save \$500 million by reducing operating expenses alone. He also cautioned that it is not realistic to assume that the university can find \$500 million worth of efficiencies; there will be inevitable impacts on people and programs.

California State University Education Doctorate Tuition Fee for 2011-2012 Academic Year

In his presentation for action, Mr. Turnage noted that the Board of Trustees has the authority to establish, adjust and abolish systemwide fees and tuition. Senate Bill 724 (Jack Scott), signed into law in 2005, authorized the CSU to award the Doctor of Education degree (EdD). Pursuant to that legislation, new EdD programs have been established at 11 campuses. The legislation directs that the CSU not charge its education doctorate students more than the tuition fee charged for state-supported doctoral degree programs at the University of California (UC).

Mr. Turnage explained that during the 2010-11 academic year, the Education Doctorate Tuition Fee was \$4,773 per semester (\$3,182 per quarter), for an academic year total of \$9,546. For the same period, the UC's fee totaled \$10,242 (excludes \$60 surcharge). The UC Regents have set their education doctorate fee at \$11,064 (excludes \$60 surcharge) for the 2011-2012 academic year.

Although state law permits the board to increase the CSU education doctorate tuition fee to the level adopted by the UC Regents for 2011-2012—which would be a permissible increase of approximately 16 percent—Mr. Turnage recommended the committee consider an increase of 10 percent, which is consistent with the other fee rate increases authorized by the board last November. The committee recommended board approval for a California State University Education Doctorate Tuition Fee effective fall term 2011 (RFIN 01-11-01).

Proposed Title 5 Revision: Claims for Damages Filed Against the Board of Trustees

As an action item, Assistant Vice Chancellor Charlene Minnick presented a proposed Title 5 revision for the management of claims for damages against the Board of Trustees. She explained how notice of the proposed changes was given at the November meeting and noted the requisite period for public and written comments has passed.

The Office of the Chancellor recognizes an opportunity to eliminate the unnecessary expense and additional administrative steps by having claims filed directly with the CSU and thereby eliminating the process that claimants go through the Victims Compensation Government Claims Board (VCGCB). The committee recommended board approval for a Title 5 revision for the management of claims for damages against the Board of Trustees. (RFIN 01-11-02).

Proposed Title 5 Revision: Lost Property

George V. Ashkar, Assistant Vice Chancellor of Financial Services provided for action a proposed Title 5 revision for the disposition of lost, unclaimed or abandoned property in the possession of a CSU campus, as required by Assembly Bill 1890. He explained how notice of the proposed changes was given at the November meeting and noted the requisite period for public and written comments has passed. The change in law allows the CSU to mirror existing law for other public entities regarding the length of time property is required to be held (a period of at least three months). The law further limits the storage, inventory and auction requirements to property valued at \$300 or more. The committee recommended board approval for a Title 5 revision for lost property (RFIN 01-11-03).

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

Mr. Ashkar requested the Board of Trustees authorize the issuance of Systemwide Revenue Bonds and the issuance of Bond Anticipation Notes (BANS) to support interim financing under the commercial paper program of the California State University (CSU) in an aggregate not-to-exceed amount of \$4,075,000 to provide financing for a campus project (San Francisco Lot 20 Parking Structure Seismic Upgrade Project). Mr. Ashkar explained that the not-to-exceed par value of the proposed bonds is based on a total project cost of \$4,018,000 and a parking reserve contribution of \$330,600 to the project. Additional net financing costs (estimated at \$387,600) are to be funded from the bond proceeds. The campus received good construction bids in

December 2010 and anticipates a construction start in February 2011 with completion in November 2011. The program revenue debt service coverage meets the CSU benchmark and the campus overall revenue debt service coverage exceeds the CSU benchmark.

With no questions, the committee recommended board approval to issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for a Project (RFIN 01-11-04).

Trustee Hauck adjourned the Committee on Finance.

COMMITTEE ON FINANCE

Report on the 2011-2012 Support Budget

Presentation By

Benjamin F. Quillian
Executive Vice Chancellor
Administration and Finance

Robert Turnage
Assistant Vice Chancellor
Budget

Summary

The 2011-12 Governor's Budget identifies a \$26.4 billion state budget shortfall (including the need to provide a \$1 billion reserve). The governor proposes to resolve this 18-month shortfall with \$12.5 billion of spending cuts, \$12 billion of new revenues and \$1.9 billion derived from various other steps. The budget reduces state support for the CSU by \$500 million (18 percent), bringing state support for the CSU to \$2.2 billion, a low level not seen since 1999. The governor's overall plan is predicated on holding a special election in June and persuading state voters to approve five-year extensions of temporary tax increases that are scheduled to expire on or before June 30, 2011. Almost all of the increased revenue that is assumed in the budget plan would depend on this special election. The governor has not specified the consequences of failure to secure these revenues. Clearly, however, the loss of these revenues raises the potential for significant additional cuts to the CSU.

At the time of this analysis, the budget conference committee was reconciling differences between the Senate and Assembly in an effort to present a budget package to the governor by March 10. This deadline requested by the governor is tied to the logistics of authorizing and carrying out a statewide election in June. The conference committee had confirmed the governor's proposed \$500 million reduction for the CSU, leaving only a budget language issue outstanding for the university.

At the March meeting, the board will be provided with a detailed update of the 2010-11 support budget.

COMMITTEE ON FINANCE

Report from the Auxiliary Review Committee

Presentation By

Charles B. Reed
Chancellor

Background

In September 2010, Chancellor Reed commissioned a Review Committee to look at issues related to the auxiliary organizations of the California State University (CSU). Several matters had been raised by the university auditor. Specifically, the committee was asked to:

- Determine if the number of auxiliaries in the CSU are appropriate for the operating environment of today;
- Determine if the CSU has proper controls regarding the purpose and operations of the auxiliaries, including a review of all operating agreements between the university and the respective auxiliaries, a review of all relevant policies, designation of authority, and audit activity that is in place for auxiliaries and recommend any changes to such policies and procedures;
- Determine if the proper documentation is in place when university employees are doing specific work for the auxiliaries, such as when faculty conduct research for a sponsored contract or grant that has been awarded to an auxiliary;
- Evaluate the long-term debt that auxiliaries have incurred and make an assessment about the extended viability of auxiliary organizations to pay off such debt; and
- Identify any other issues that may need attention.

The Review Committee, chaired by Executive Vice Chancellor Emeritus Richard West, was comprised of campus presidents, vice presidents and the student trustee. The executive vice chancellors, the vice chancellors, the university auditor and staff also met with the Review Committee. The committee met September through December 2010.

The committee's report (Attachment A) was submitted to the chancellor in mid-February. A variety of issues were identified, and the following recommendations were made to the chancellor:

1. The chancellor should review the list of authorized functions in Title 5 and recommend modifications or clarifications, as appropriate.

2. At this time, all CSU auxiliaries in good standing should have their operating agreements reviewed, and modified as appropriate, by the campus president and chancellor's office. Particular emphasis should be placed on assuring that the desired functions are being performed. The campus president's authority over auxiliary actions should be incorporated into all auxiliary operating agreements.
3. Operating agreements for auxiliary organizations should be reviewed no less than every five years by the campus president and chancellor's office. As part of these periodic reviews, the president should look at the efficiency of the auxiliary operations and administration, ensure there is an evaluation as to the auxiliary's viability, and examine the need for each auxiliary.
4. The chancellor should reaffirm and clarify as part of an executive order the campus president's authority over auxiliary organization budgets, expenditures, and programs. Additionally, the executive order should establish the campus chief financial officer's responsibility as the single campus officer designated to ensure auxiliary organizations maintain sound systems of internal controls and remain in compliance with legal and regulatory requirements, including nonprofit law, trustee policies and directives of the chancellor.
5. Campus presidents should solicit nominations for student auxiliary board members from the campus recognized student body organization. The process for selecting auxiliary board members that are students should generally follow the process described in Appendix C.
6. The chancellor should review Education Code 89900 regarding comparability of salaries and benefits to determine whether comparability with the CSU salary and benefits is appropriate.
7. The chancellor should review and revise, as appropriate, existing policy to recognize that university employees should retain their employment status with the university even when some salary and benefit costs are reimbursed from sponsored programs/research.
8. The trustees should consider sponsoring legislation for the 2011-2012 legislative session that clarifies disclosure rules for CSU auxiliary activities. Under proposed legislation, auxiliaries would respond to public requests for information to the extent that such requests do not conflict with the need to protect (a) confidentiality of donors and volunteers and (b) proprietary terms of financial instruments.

9. The chancellor should determine if the Public Records Act offers sufficient protection for certain proprietary terms contained in some vendor contracts, such as exclusive beverage serving rights (“pouring rights”).
10. The chancellor should consider including in Title 5 and/or policy statements guidelines regarding transparency of auxiliary operations, including the types of information that will be disclosed to the public consistent with the principles included in the draft legislative proposal.
11. The chancellor should issue policy that re-implements the “ownership” tests to determine proper placement of funds. A draft of such an executive order, implementing this policy, is included in Appendix D.
12. The campuses and the university auditor should use these policy principles to resolve current outstanding internal audit findings regarding the placement of funds.
13. The chancellor should review all current policy to separate the issues of placement of funds and the reimbursement of costs to the campus by an auxiliary.
14. The chancellor should review all policies dealing with reimbursement of costs and reissue the key principles regarding reimbursement within one policy statement that should be distinct from any policies dealing with placement of funds.
15. The chancellor should develop some “frequently asked questions” to give campuses guidance regarding when “in kind” or less than full-cost reimbursement is appropriate.
16. The chancellor should develop guidelines as part of the annual audit process, that identify the criteria that campus auxiliaries should use in selecting local audit firms. These guidelines should emphasize the experience and training of the audit firm staff and partners in current non-profit tax law.
17. The chancellor should ensure an annual update is provided to campuses regarding changes in compliance requirements for non-profit organizations that may have occurred during the preceding year.
18. Campuses should assure that each auxiliary auditor is aware of these changes and incorporate them into their local audit plan.
19. The chancellor should give guidance to the campuses regarding the level of governance training provided to non-profit board members.

20. The chancellor should ensure in a policy statement that the campus chief financial officer is recognized as the single campus officer responsible for ensuring auxiliary organizations comply with non-profit requirements.

The chancellor has asked Executive Vice Chancellor Quillian to take the lead on implementing the various recommendations from the report and that work has already begun.

Report from the Review Committee on the Status of Auxiliaries in the California State University

Executive Summary

Chancellor Reed commissioned a Review Committee to look at issues that had been raised by various sources during the last year. These issues are both public policy as well as potential external and internal control issues. The Review Committee was made up of Presidents, Vice Presidents and a CSU student representative. Vice Chancellors and their staff also met with the Review Committee. The Committee met during the period of September through December of 2010. The background and findings of the Committee are summarized here.

The origin of separate non-profit auxiliary organizations supporting California State University (CSU) campuses can be documented to the 1920s and 1930s. The authority for auxiliaries is found in state statute (Education Code, non-profit law) and Title 5. Although the term “auxiliaries” is used throughout higher education, the term has a specific and unique meaning within the CSU. Only the CSU creates auxiliaries that are founded in non-profit law, state law specific to these entities, and Trustee policy. A general history of the development of auxiliaries is included as Appendix A to this report. Auxiliaries were created to enable performance of certain business and educational functions that are common at institutions of postsecondary education, but which are found to be less efficiently and effectively accomplished as a result of difficult and cumbersome requirements placed on traditional governmental departments under California law and/or for the state budget to fund.

There are currently more than 90 recognized auxiliaries in the CSU. Recognized auxiliaries are those that meet all legal requirements and Trustee policy and have been formally approved by the chancellor. Auxiliaries can only perform certain functions as authorized by the Trustees. In 2008-09 there was over \$1.2 billion in revenue and expenses associated with the auxiliaries. The majority of the revenue comes from external sources (sponsored research, philanthropic gifts) and fee for service activities such as food services and bookstores.

There have been a number of issues that have arisen around auxiliary activities in the last year. These topics range from public policy questions to internal and external audit findings. Also, during the last year the California State Attorney General's Office has examined, or is still in the process of examining, documents and activities of CSU auxiliaries.

Most of the time and effort of the Review Committee focused on identifying and discussing the issues that have been raised from all sources. The Review Committee has organized the issues into the following general categories:

- Are there proper CSU controls over auxiliary expenditures of funds and auxiliary purposes and activities?
- Are auxiliary operations appropriately transparent to the public and to the general campus community?
- Are funds contained and managed by the auxiliaries appropriately placed with the auxiliary?
- For services provided by the campus (state) to auxiliaries, is there proper reimbursement and documentation by the auxiliaries?
- Do CSU auxiliaries comply with California non-profit requirements?

The Review Committee makes recommendations in each of these areas that will improve control and transparency of auxiliary operations. Confusion was found in the area of fund management. Policy gaps were found when major changes in CSU's treasury and accounting functions were authorized by new legislation in 2006. Reinstatement of policies that had been in place prior to these changes, but made consistent with the new treasury functions, should give proper management and internal audit guidelines for auxiliary management of funds. Other recommendations will help the CSU respond to all of the issues that have been identified from internal and external sources.

The review by the Committee did not find any compelling reason to move functions performed by auxiliaries to campus (state) operations as long as all the appropriate internal control mechanisms and operating agreements are in place to govern the auxiliary activities. There is a long tradition of auxiliary management and staff performing these functions well for the CSU.

Report from the Review Committee on the Status of Auxiliary Organizations in the California State University

History and Legal Basis of CSU Auxiliary Organizations

The origin of separate non-profit auxiliary organizations supporting California State University (CSU) campuses can be documented to the 1920s and 1930s. The authority for auxiliaries is found in state statute (Education Code, non-profit law) and Title 5. Although the term “auxiliaries” is used throughout higher education, the term has a specific and exclusive meaning within the CSU. The CSU uniquely creates auxiliaries that are founded in non-profit law, state law specific to these entities, and Trustee policy¹. A general history of the development of auxiliaries is included as Appendix A to this report.

There are currently more than 90 recognized auxiliaries supporting the CSU and its campuses. Recognized auxiliaries are those that meet all legal requirements and Trustee policy, and have been formally approved by the chancellor.

Trustee policy requires auxiliary organization activities to be essential to the educational mission of a campus. Auxiliaries were created to enable performance of certain business and educational functions that are common at institutions of postsecondary education, but which are found to be less efficiently and effectively accomplished as a result of difficult and cumbersome requirements placed on traditional governmental departments under California law and/or for the state budget to fund. The objectives set for them are to provide for: a) student self-government, b) the fiscal means and the management procedures that allow the campus to carry on activities providing those instructional and service aids not normally furnished by the state budget, c) effective operation and to eliminate the undue difficulty which would otherwise arise under the usual governmental budgetary, purchasing, and other fiscal controls, and d) fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices.²

Auxiliaries can only perform certain functions as authorized under Trustee policy. The current authorized functions for auxiliaries are:

- 1) Student Body Organization Programs
- 2) Bookstores, Food Services and Campus Services
- 3) Housing
- 4) Student Union Programs
- 5) Supplementary Health Services

¹ The California Community Colleges also have auxiliary functions some of which are non-profit entities. The referenced statute and Title 5 authorization is strictly for CSU auxiliaries.

² Title 5 §42401

- 6) Loans, Scholarships, Grants-in-Aid, Stipends, and Related Financial Assistance
- 7) Externally Funded Projects Including Research, Workshops, Conferences, and Institutes
- 8) Instructionally-related Programs, and activities, including Agriculture, Athletics, Radio and Television Stations, Newspapers, Films, Transportation, Printing and other Instructionally Related Programs and Activities
- 9) Alumni Programs
- 10) Gifts, Bequests, Devises, Endowments, Trusts and similar funds
- 11) Public Relations, Fundraising, Fund Management, and similar Development Programs
- 12) Acquisition, Development, Sale, and Transfer of Real and Personal Property including Financing Transactions related to these Activities

Each auxiliary has an operating agreement with the campus and the Board of Trustees that specifies the functions and the activities each specific entity is allowed to perform. These agreements are reviewed by the campus and formally approved by the president. In addition to the specific functions outlined in law and Title 5, there are other restrictions that are placed on auxiliary activities. There are some things that the CSU has determined its auxiliary organizations can never do:

- 1) Hold state general funds, except in limited and approved circumstances, that are appropriated to the CSU through the annual legislative process
- 2) Hold tuition fee revenue
- 3) Hold most other mandatory student fees required for registration
- 4) Own or sponsor an instructional program awarding credit or Continuing Education Units (CEUs)

Since the CSU cannot engage in certain activities, the auxiliaries allow the university more flexibility in these areas. These are areas where the CSU is severely restricted by state law or the state constitution. Under state law auxiliaries are to be created “to promote or assist any campus of the CSU, or to receive gifts, property, and funds to be used for the benefit of such campus”³. Presently, they perform essential functions associated with a higher educational institution that are “rendered difficult and cumbersome” under California law to perform. Examples of these activities include:

- 1) Invest in equities
- 2) Buy, sell and hold real property without legislative act
- 3) Engage in state wide education bond campaigns

Auxiliaries can do other things that are permissive in statute, as long as the function is among the list of authorized activities permitted by law and Trustee policy. To actually perform these functions requires the formal agreement of the campus president in the

³ Education Code §89901

auxiliaries' operating agreements with the campus and the Trustees. Although many functions, such as externally sponsored programs/research, have historically been performed by campus auxiliaries there is no requirement that an auxiliary perform the activity. A few campuses are organized to have sponsored programs/research and other programs performed on the campus state-side of operations. Examples of activities traditionally performed by auxiliaries, that could also be done on the state-side of campus operations include:

- 1) Operation of student body organizations
- 2) Research and sponsored programs
- 3) Providing workshops, conferences, meeting and program management support
- 4) Operation of commercial services, e.g. food services and bookstores
- 5) Management of a philanthropic program, including acceptance of donor gifts

Auxiliaries can be organized around one specific function, such as student government, or an auxiliary can perform multiple functions, such as commercial services and sponsored programs/research.

There are specific board composition requirements depending on the function the auxiliary performs. For example, student body organizations' governing boards "shall consist primarily of students." However, each student body organization shall have "a representative of the campus president as either voting or nonvoting member of the governing board"⁴ to advise on policy and to provide liaison between the students and the campus administration. Similarly, philanthropic foundation boards usually consist of members who have personal influence and financial resources to support the organization and university priorities. Other auxiliaries that focus on sponsored programs/research and/or workshop and conference program management may have a larger number of faculty on the board than a philanthropic or commercial services board. In addition to serving the interests of the university and complying with university policy, auxiliary governing boards are responsible for governance and fiduciary duties as required under California non-profit corporations law.

The examination by the Auxiliary Review Committee did not find any compelling reason to move these types of activities to campus state-side operations as long as all the appropriate internal control mechanisms and operating agreements are in place to govern the auxiliary activities. There is a long history of auxiliary management and staff performing these functions well for the CSU. Going back to the 1920's the CSU has continued, with the approval of state control agencies or the Board of Trustees, to turn to auxiliary organizations as the best mechanism to perform certain activities for the university.

⁴ Title 5 §42602

Types and Scale of CSU Auxiliaries

Auxiliary organizations, under statutory standards, must be self-supporting and do not receive state funding. The revenue that is raised by the auxiliary is used to support the programs or activities of the organization, and each auxiliary must maintain fiscal viability and solvency and not have a net operating loss.

Student body organization programs operate extra-curricular activities such as student government, student newspapers, recreation and cultural programs, and other student life activities essential to the overall educational experience of students. Revenues come from student fees assessed of all registered students, and set at rates approved through student referenda.

Campuses have constructed a student union facility (or otherwise identified a facility to serve as the union) that serves as the hub of community for the campus. The union typically provides gathering spaces for students and staff of the campus, meeting rooms for student clubs, quiet study spaces, and typically house most of the food services provided on campuses, as well other student union programs. Fees are charged to all registered students and are set at rates to cover construction/debt service, maintenance and the programs offered at the facility.

Philanthropic auxiliaries have been created at most CSU campuses to provide a focus for fund-raising activities in support of the institution. These entities have diversified investment strategies for endowment management intended to generate additional funds to support the university and its activities. The expectation is that once the fund-raising program has sufficient maturity and capacity it will be a self-supporting program. In the interim, the long-term benefits of building and sustaining a robust fund-raising program for the university justify some level of support from the campus for the program.

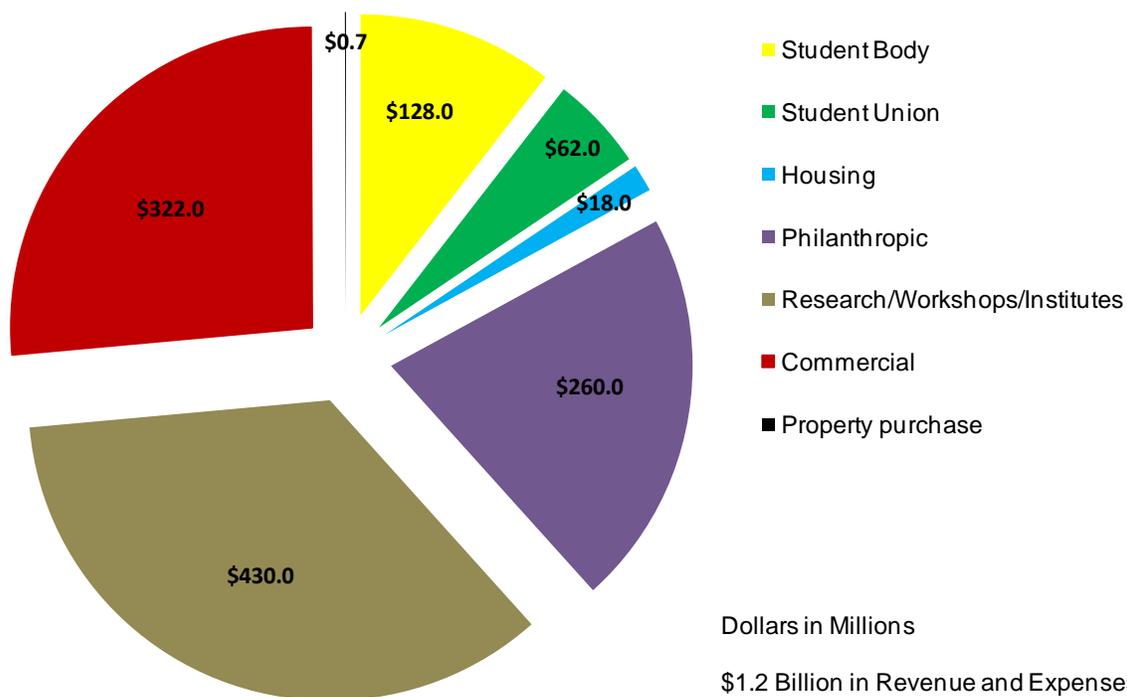
Auxiliaries that manage sponsored programs/research, workshops and other special educational projects administer externally funded activities with a direct connection to the educational mission of the campus. Funds may come from federal, state and/or private grants and contracts.

The operation of bookstores, food and vending services, and agricultural projects are the focus of a class of auxiliary termed “commercial”. Revenues are derived from the sales of products and services to students, faculty and staff as well as to the public who come to the university to participate in community, educational or cultural events on or in CSU facilities; and funds are reinvested in the operations of the program to keep current with both technology and the changing expectations of students, faculty and staff. Agrarian activities are particularly important to campuses offering instruction involving direct experience with farms, cattle, poultry, and related management programs.

Just short of half of the campuses have an auxiliary organization that conducts both the sponsored programs/research function and the commercial services function.

In recent years some CSU campuses have established auxiliaries focused on developing and/or constructing housing for students, faculty and staff. In the case of faculty and staff housing these programs assist the university's recruitment efforts to hire talented individuals who want to find affordable housing near the campus. The revenue to support these activities varies, depending on the program. For example housing fees paid by students to live in university-provided units or mortgages with faculty/staff who have purchased homes.

This chart shows the distribution of revenue for the different types of CSU auxiliaries based on 2008-09 financial statement data and the annual external support report produced by campuses. The total amount of revenues and expenses flowing through auxiliaries for this time period is approximately \$1.2 billion. State revenue appropriated to the CSU can be used to purchase goods and services from an auxiliary just as it also may purchase such goods and services from an external vendor.



Number of Auxiliaries

The number of auxiliaries has increased from 69 to 94 during the period from 1994 to present with nearly one-third devoted to student-led functions. The growth in the auxiliaries comes in three major areas:

- New campuses
- Faculty and staff for-sale housing
- Creation of a single purpose philanthropic foundation

The single largest growth in the number of auxiliaries has been to create a philanthropic auxiliary with the ability to invest in equities or to separate the philanthropic function from an existing campus auxiliary. The significant and continued reduction in state support for the university has caused the CSU to focus greater energy in building a strong base of supporters who provide additional fiscal support to the institution. The single focus philanthropic organization can develop friends and donors for the campus. Board members can be selected based solely on their willingness to help the campus raise money and build community relationships. The careful selection of philanthropic board members has been a stated part of the overall CSU strategy to help meet the Trustee's goals in campus fund raising. This close linkage with the local community is one critical role auxiliary organizations play in the CSU.

Another area of growth is housing. The buying and selling of real property is perfectly suited for an auxiliary. Real property acquired by the university requires legislative approval. Selling property also requires legislative action. During the period of high escalation in housing costs, auxiliaries were created to allow for the sale of faculty and staff housing. In certain cases, land was acquired specifically for this purpose. Once real property improvements are made, such as building a housing unit, there was a need for straightforward purchase and sale of the houses to faculty and staff. Auxiliaries meet this need well since they are able to develop the specialized skills and expertise of the staff needed to perform this activity. Auxiliaries participate in the Systemwide Revenue Bond program and all projects are approved by the Board of Trustees. During the course of this review, the amount of auxiliary debt associated with capital construction was examined to ensure it was not excessive and the projects were appropriate for the campus. There were no problems identified.

When examined in detail, the growth in auxiliaries is understandable and desirable. However, campuses should review each of their auxiliaries to assure there are not conflicting duplication of activities/functions between and among auxiliaries and between auxiliaries and the campus. Some integration of auxiliaries performing similar duties would be logical.

Issues and Recommendations

Auxiliaries are valuable entities and provide important services to the CSU. Nevertheless, there have been a number of issues that have arisen around auxiliary activities in the last year. These topics range from public policy questions to internal and external audit findings. Also, during the last year the California State Attorney General's Office has examined, or is still in the process of examining, documents and activities of CSU auxiliaries. There have been no violations of policy or legal guidelines, or improper administration of any funds held in auxiliary accounts.

Most of the time and effort of the Review Committee focused on identifying and discussing the issues that have been raised from all sources. The Review Committee has organized the issues into the following general categories:

- Are there proper CSU controls over expenditures of funds and auxiliary purposes and activities?
- Are auxiliary operations appropriately transparent to the public and to the general campus community?
- Are funds contained and managed by the auxiliaries appropriately placed with the auxiliary?
- For services provided by the campus to auxiliaries, is there proper reimbursement to the university and documentation by the auxiliaries?
- Do CSU auxiliaries comply with applicable California non-profit corporation law?

General Issue One: Are There Proper CSU Controls Over Auxiliary Expenditures of Funds and Auxiliary Purposes and Activities?

There is a long and detailed history of controls the university has established for its auxiliary organizations. There are rules established in state law (Education Code) and Trustee policy (Title 5) regarding the president's authority over each campus auxiliary organization⁵. Over time the CSU has increased the amount of controls placed on the auxiliaries. For example, clear reporting requirements via the annual CSU financial statement have been in place since 1995. When the CSU implemented the Systemwide Revenue Bond program in 2002—a program for university-related debt issuance—

⁵ Title 5 §42402 "Authority of Campus President: The president of each campus is responsible for the educational effectiveness, academic excellence and general welfare of the campus, over which he presides. As stated, auxiliary organizations operate as an integral part of the overall campus program. Therefore, for the president to exercise his responsibility over the entire campus program, he shall require that auxiliary organizations operate in conformity with policy of the Board of Trustees and the campus. To execute this authority, the president shall require that each auxiliary organization submit its programs and budgets for review at a time and in a manner specified by the president. Should the president determine that any program or appropriation planned by an auxiliary organization is not consistent with policy of the Board of Trustees and the campus, the program or appropriation shall not be implemented. ..."

auxiliary organization debt financings were expressly included in the university program in order to manage the overall debt capacity of the institution and its auxiliaries. A summary of the types of controls in place and how they have evolved is described in Appendix B.

As explained further in another section of this report, CSU auxiliaries have to meet the tests of any California non-profit, but they also must receive the approval of the campus president and the chancellor when the auxiliary is initially established. Each auxiliary also is required to have a written operating agreement between the auxiliary, the campus and the Trustees. These operating agreements identify the functions that the auxiliary is authorized to perform. Failure of an auxiliary to comply with any term of an operating agreement may result in the removal, suspension, or placing on probation of the auxiliary as an auxiliary organization in good standing. Such action may involve the limitation or removal of the auxiliary's right to utilize the resources, facilities, and name of the California State University and campus (Title 5 §42406). Currently, these operating agreements can have any agreed upon term, which is based on the function performed by the auxiliary.

One important control exercised by the campus president is the appointment of members to the board of the auxiliary. Many of the board members of auxiliaries are, by design, members from the community where the campus is located. Many of these board members have likely served on other non-profit boards and understand the responsibilities required of a board member. In addition to the normal non-profit fiduciary requirements, the CSU auxiliaries also operate in accord with state law, Trustee and campus policy.

Most all auxiliaries have at least one student member. Over one-third of the auxiliaries are led by students. Some auxiliaries, such as student government or student unions have a majority of student members. As part of this review, the question was raised whether presidents should appoint student auxiliary board members from a list of candidates provided by the campus recognized student body organization consistent with the Trustee resolution affirming student participation in policy development (REP 07-01-04 and coded memorandum AA 2009-2)⁶. A proposal on this topic is part of the Review Committee's recommendations and is found in Appendix C.

Not all auxiliaries have employees. There are different requirements placed on employees of auxiliaries by law and CSU policy. Generally, auxiliary organizations are required to provide salaries, working conditions, and benefits for the full-time employees of each auxiliary organization that are comparable to those provided California State

⁶ The Board of Trustee policy states, "The presidents will provide [the] officially recognized associated student body organizations an opportunity to offer opinions and make recommendations about campus policy and procedures that have or will have an effect upon students. Nominations of student representatives to serve on campus-wide governance committees, campus-wide task forces, or other campus-wide advisory groups will be made by the appropriate officially recognized associated student body organization."

University employees performing similar services. Though the benefits packages are to be comparable, they are not required to be the same. As such, employee salaries and benefits vary by auxiliary and by campus. For those full-time employees whose duties are not comparable to existing positions in CSU employment, the salaries established are required to be at least equal to the salaries prevailing in other educational institutions in the area or commercial operations of like nature. Salary surveys and other market research may satisfy this condition.

There also are explicit employment exemptions available to auxiliaries. For example, an auxiliary that is funded primarily by mandatory student fee income may have retirement benefits for its employees withheld by action of the governing board. Further, retirement benefits or permanent status benefits, or both, may be withheld from temporary or executive employees of an auxiliary.

The Review Committee did find a major inconsistency between practice and policy in the treatment of university employees who perform work on sponsored grants and contracts administered through an auxiliary. Existing Executive Order 890 defines the auxiliary as the employer of the Principal Investigator⁷ as well as any other personnel working on a grant or contract, regardless of whether the auxiliary reimburses the university for salary and benefits costs or pays the employee directly. Thus, a university employee whose responsibilities included work on a sponsored grant or contract would be considered part time employed by the auxiliary and part time employed by the university.

This is not current practice within the CSU. Instead, when a university employee is assigned by the university to work on a grant or contract, the individual is retained as a full time employee of the university. The university is reimbursed for salary and benefits costs associated with work on the grant or contract when such funds have been provided in the grant or contract. This practice ensures that the employee's status with the university is unaffected, and there is no break in service or loss of retirement credit for the employee. By retaining the employee's status, the university avoids creating a significant disincentive for faculty and staff to apply for grants to support research and other activities. Research, scholarship and creative activity are recognized as one of the primary responsibilities of instructional faculty, and research grants assist tenure/tenure-track faculty in meeting expectations for tenure and promotion.

⁷ **NIH Definition of a Principal Investigator:** The individual(s) judged by the applicant organization to have the appropriate level of authority and responsibility to direct the project or program supported by the grant. The applicant organization may designate multiple individuals as PD/PIs who share the authority and responsibility for leading and directing the project, intellectually and logistically. Each PD/PI is responsible and accountable to the applicant organization, or, as appropriate, to a collaborating organization, for the proper conduct of the project or program including the submission of all required reports. The presence of more than one identified PD/PI on an application or award diminishes neither the responsibility nor the accountability of any individual PD/PI.

There are several models for the administrative/operational structure of auxiliary organizations:

- Each auxiliary at a campus manages all its own administrative/operational activity; or
- One auxiliary at the campus manages the administrative/operational activities for the other auxiliaries at the campus; or
- The campus manages the administrative/operational activities for some or all the auxiliaries.

Regardless of which model is used, it is important that the campus affirm the value of segregation of duties, especially at a smaller campus. Further, campuses and auxiliaries should review administrative structures with an eye toward streamlining operations, increasing efficiencies and reducing costs.

Recommendations related to “Are There Proper CSU Controls Over Auxiliary Expenditures of Funds and Auxiliary Purposes and Activities?”:

- 1) The chancellor should review the list of authorized functions in Title 5 and recommend modifications or clarifications, as appropriate.
- 2) At this time, all CSU auxiliaries in good standing should have their operating agreements reviewed, and modified as appropriate, by the campus president and chancellor’s office. Particular emphasis should be placed on assuring that the desired functions are being performed. The campus president’s authority over auxiliary actions should be incorporated into all auxiliary operating agreements.
- 3) Operating agreements for auxiliary organizations should be reviewed no less than every five years by the campus president and chancellor’s office. As part of these periodic reviews, the president should look at the efficiency of the auxiliary operations and administration, ensure there is an evaluation as to the auxiliary’s viability, and examine the need for each auxiliary.
- 4) The chancellor should reaffirm and clarify as part of an Executive Order the campus president’s authority over auxiliary organization budgets, expenditures, and programs. Additionally, the Executive Order should establish the campus Chief Financial Officer’s responsibility as the single campus officer designated to ensure auxiliary organizations maintain sound systems of internal controls and remain in compliance with legal and regulatory requirements, including non-profit law, Trustee policies and directives of the chancellor.
- 5) Campus presidents should solicit nominations for student auxiliary board members from the campus recognized student body organization. The process for selecting auxiliary board members that are students should generally follow the process described in Appendix C.
- 6) The chancellor should review Education Code 89900 regarding comparability of salaries and benefits to determine whether comparability with the CSU salary and benefits is appropriate.
- 7) The chancellor should review and revise, as appropriate, existing policy to recognize that university employees should retain their employment status with the university even when some salary and benefit costs are reimbursed from sponsored programs/research.

General Issue Two: Transparency of Auxiliary Operations

CSU auxiliaries are a product of both California non-profit law and the CSU. Since they are separate, legal corporate entities CSU auxiliaries have not been subject to the same disclosures and public records access rules that are required of the university. Legislation was passed in the 2010 legislative session that would have required expanded disclosure of auxiliary records to the public. This legislation was vetoed by the governor.

The Public Records Act, among other laws, governs what public entities must disclose upon request by a member of the public. The Review Committee believes additional disclosure of auxiliary activity is appropriate and that transparency of operations should be a guiding principle. That being said, there are certain types of transactions that the Review Committee believes should be protected. Donor records such as wills, estate plans, trusts, annuities and other financial and personal information should remain confidential to avoid an unwarranted invasion of personal privacy.

Similarly, certain proprietary terms contained in vendor contracts were seen as needing to remain confidential where the public interest in disclosing such terms does not outweigh that which might be served from disclosure. An example of such a term would be payments for exclusive beverage serving rights in campus food services; such “pouring rights” terms should be protected from disclosure. Specific and exclusive terms negotiated in auxiliary business contracts, if disclosed, would give vendor competitors an unfair advantage, and would likely reduce those willing to compete and potentially damage an auxiliary’s ability to negotiate the most favorable terms.

Recommendations related to “Transparency of Auxiliary Operations”

- 8) The Trustees should consider sponsoring legislation for the 2011-12 legislative session that clarifies disclosure rules for CSU auxiliary activities. Under proposed legislation, auxiliaries would respond to public requests for information to the extent that such requests do not conflict with the need to protect (a) confidentiality of donors and volunteers and (b) proprietary terms of financial instruments.
- 9) The chancellor should determine if the Public Records Act offers sufficient protection for certain proprietary terms contained in some vendor contracts, such as exclusive beverage serving rights (“pouring rights”).
- 10) The chancellor should consider including in Title 5 and/or policy statements guidelines regarding transparency of auxiliary operations, including the types of information that will be disclosed to the public consistent with the principles included in the draft legislative proposal.

General Issue Three: Proper Placement of Funds

The Review Committee considered issues raised in external and internal audit reports for the last few years. The policy history regarding the placement of funds with either the university or an auxiliary also was reviewed. There are several different policies that established the requirements surrounding which funds can be managed by an auxiliary. These policies have been modified over the years as state law has changed as it applies to the management of CSU funds.

The Review Committee found policy gaps in this important area. Effective with the 2006-07 fiscal year the CSU was given authority to deposit student fee income in CSU accounts, but outside the state treasury. Understandably, most CSU policy that addressed where funds can be placed had been built around fee income being deposited in the State Treasury. The implementing policy for the proper treatment of certain fee revenue was Executive Order 1000 issued in July 2007. One of the many things that this policy did was rescind previous policies that spoke to the placement of funds in auxiliaries. Issuance of revised policy guidance for those superseded directives was expected, as well as other policies that were rescinded, in new Executive Orders that would be written consistent with Executive Order 1000 and new state law regarding fund management. Unfortunately, these policies have not been written leaving a void in policy guidance. The Review Committee recommends the completion of this original intent from 2007 and issuance of a new Executive Order that presents policy that describes which funds can be placed in an auxiliary.

The Review Committee has concluded that the key issue for a campus in making a decision about the placement of funds is the concept of ownership. Ownership of an activity is evidenced by:

- Authority and discretion to contract for services or materials required by an activity
- Responsibility for business losses
- Legal liability as an owner or principal entity
- Acceptance of fiduciary obligations associated with an activity
- Responsibility for the establishment of operating and administrative policies
- Primary control or discretion over the expenditure of funds

Ownership of an activity is not necessarily evidenced by which entity:

- Employs individuals granted signatory authority related to an activity (e.g., person or persons who can sign a letter or other related documents on behalf of a principal entity)
- Owns the facility where the activity occurs
- Has limited authority to request an expenditure
- Has academic or similar programmatic control over an activity

This policy approach is contrasted with an interpretation that the funding source for personnel involved in an activity determines the placement of funds. For example, faculty are expected, as part of their normal job duties, to perform teaching, research, and service to the university, profession, and community, and may conduct seminars, institutes and conferences. Faculty, with very few exceptions, keep their employment status on the CSU state-side of operations. When conducting sponsored programs/research a faculty member's (or other employee's) salary and benefits may be partially reimbursed by a contract or grant. The placement of the grant is appropriately in an auxiliary as long as the sponsor awards the grant to the auxiliary, and the auxiliary is authorized for this function by the operating agreement. The same logic would apply to conferences, institutes or workshops. Fees charged for a workshop could be deposited in an auxiliary as long as the auxiliary meets the ownership tests described above and those activities are an authorized function of the auxiliary, regardless of whether the person conducting the workshop is employed by the university.

The same ownership concepts can be applied to sponsored program funds and donor gift receipts, and provide the policy basis for having those types of funds deposited in an auxiliary. The application of these business principles, which was incorporated in CSU policies prior to issuance of Executive Order 1000, should allow current internal audit issues around placement of funds to be resolved.

Recommendations related to “Proper Placement of Funds”

- 11) The chancellor should issue policy that re-implements the “ownership” tests to determine proper placement of funds. A draft of such an Executive Order, implementing this policy, is included in Appendix D.
- 12) The campuses and the University Auditor should use these policy principles to resolve current outstanding internal audit findings regarding the placement of funds.
- 13) The chancellor should review all current policy to separate the issues of placement of funds and the reimbursement of costs to the campus by an auxiliary.

General Issue Four: The Reimbursement of Costs Incurred by the CSU for Auxiliary Activity

When the CSU was formed in 1960, and the original rules governing auxiliary organization activity were enshrined into Title 5, this included various statements about reimbursement to the state for use of facilities or services provided by state employees. These rules were driven by Article 16, Section 6 of the California Constitution which prohibits making gifts of any public funds. Further, Government Code Section 8314 prohibits the use of state resources for non-state purposes, except uses that are “incidental and minimal”. This principle was articulated fully in Executive Order (EO) 753 and then reaffirmed via EO 1000, which states in part, “Ensure that costs incurred by the CSU Operating Fund for services, products, and facilities provided to other CSU funds and to auxiliary organizations are properly and consistently recovered with cash and/or a documented exchange of value.”

The Review Committee found that the policies governing reimbursement of CSU state-side costs incurred by auxiliaries were spread throughout several different Executive Orders, including one that was recently issued. Reimbursement of costs does not have to be in cash and can be in-kind. There are activities performed by faculty and staff, employed by the CSU state-side that might only be reimbursed in-kind. For example, although sponsored programs/research paid by the federal government, may reimburse some costs associated with the research activities, not all costs are reimbursed. There are contracts and grants that may not pay for any portion of the faculty member’s salary. However, the university and its instructional programs derive significant benefits from sponsored program activities, regardless of whether the programs are administered through an auxiliary or through the university. These benefits, recognized in-kind, are exchanged for the university’s support which is in the best interest of the overall educational program.

Recommendations related to “The Reimbursement of Costs Incurred by the CSU for Auxiliary Activity”

- 14) The chancellor should review all policies dealing with reimbursement of costs and reissue the key principles regarding reimbursement within one policy statement that should be distinct from any policies dealing with placement of funds.
- 15) The chancellor should develop some “frequently asked questions” to give campuses guidance regarding when “in kind” or less than full cost reimbursement is appropriate.

General Issue Five: Do Auxiliaries Comply with Applicable Non-profit Corporation Law?

Regulations require that each auxiliary governing board have the benefit of the advice and counsel of at least one attorney admitted to practice law in this state and at least one licensed certified public accountant. Neither the attorney at law nor accountant need to be members of the governing board. These professionals should have expertise in serving non-profit clients and become familiar with the unique legal construct of CSU auxiliary organizations. Those examining auxiliary audits have commented that auxiliaries may not be fully utilizing or receiving sufficient advice from these professionals.

The State Attorney General has conducted a series of inquiries reviewing the audited financial statements of nearly all auxiliaries and is performing a few special investigations. The inquiries have found no misuse, misappropriation or waste of charitable funds. The major finding to date by the State Attorney General, after review of some CSU auxiliaries, is that some procedural requirements were not followed such as conducting the appropriate number of meetings, recording minutes of board meetings, and filings of appropriate state and federal forms. In one report, the Attorney General noted that board members would benefit from additional training in fiduciary responsibilities.

The university’s external auditor, KPMG, has suggested in conversation that deficiencies in some auxiliary stand-alone audits may be related to the timely application of changes in non-profit law and associated updates to generally accepted accounting standards. Auxiliaries engage their own independent auditors to perform annual financial audits. These audits are then presented to the chancellor’s office for review by staff and KPMG for consolidation into the university’s annual financial audit. It

has been suggested that some of the firms currently engaged by auxiliaries may not have sufficient expertise in preparing non-profit financial audits.

The university auditor currently conducts auxiliary compliance audits every three years. The objectives of these audits are to provide management with reasonable assurance that auxiliary operations are conducted in accordance with applicable law and Trustee policy; assets are adequately safeguarded from unauthorized use or disposition; and transactions are recorded properly to permit the timely preparation of reliable financial statements. Findings from these audits are reported to the Board of Trustees and made publicly available on the university auditor's website. Conditions requiring corrective action are remedied within a mutually agreeable timeframe.

Given the scope and nature of auxiliary activity on each campus and that some auxiliaries have no or very few employees, it is appropriate that some campuses centralize responsibility for compliance with all non-profit requirements.

Recommendations related to "Do Auxiliaries Comply with Non-profit Requirements?":

- 16) The chancellor should develop guidelines as part of the annual audit process, that identify the criteria that campus auxiliaries should use in selecting local audit firms. These guidelines should emphasize the experience and training of the audit firm staff and partners in current non-profit tax law.
- 17) The chancellor should ensure an annual update is provided to campuses regarding changes in compliance requirements for non-profit organizations that may have occurred during the preceding year.
- 18) Campuses should assure that each auxiliary auditor is aware of these changes and incorporate them into their local audit plan.
- 19) The chancellor should give guidance to the campuses regarding the level of governance training provided to non-profit board members.
- 20) The chancellor should ensure in a policy statement that the campus Chief Financial Officer is recognized as the single campus officer responsible for ensuring auxiliary organizations comply with non-profit requirements.

Summary

The Review Committee examined a number of issues that have been raised about auxiliary organizations or related to auxiliaries at the California State University. The topics ranged from public policy questions to internal and external audit findings, as well as questions raised from within the university. Most of the time and effort of the Review Committee focused on identifying and discussing the issues that have been raised from all sources. The Review Committee organized the issues around proper internal controls; transparency of operations; placement of funds; reimbursement of university costs; and finally compliance with non-profit requirements.

The Review Committee makes recommendations in each of these areas that will improve control and transparency of auxiliary operations. Confusion was found in the area of fund management. Policy gaps were found when major changes in CSU's treasury and accounting functions were authorized by new legislation in 2006. Reinstatement of policies that had been in place prior to these changes, but made consistent with the new treasury functions, should give proper management and internal audit guidelines for auxiliary management of funds. Other recommendations will help the CSU respond to all of the issues that have been identified from internal and external sources.

The review by the Committee did not find any compelling reason to move functions performed by auxiliaries to campus (state) operations as long as all the appropriate internal control mechanisms and operating agreements are in place to govern the auxiliary activities.

Historical Background of Auxiliary Organizations

Auxiliary organizations predate the establishment of the California State University (CSU) system in 1961 and were created “to provide the fiscal means and management procedures” [Title 5 §42401(b)] to enable the performance of business and educational functions normally performed in institutions of postsecondary education, but which were rendered difficult and cumbersome by California law for the state college to perform and/or for the state budget to fund.

Bookstores and, in some instances, related cafeteria facilities were established in the 1920’s and 1930’s. At many of the colleges, an association of students operated these activities. Prior to the establishment of auxiliary organizations, an attempt was made to operate student project activities under State procedures. In 1931, the Legislature established a \$10,000 California Polytechnic School agricultural revolving fund to assist financing student projects. However, an adverse opinion from the Attorney General’s Office concerning the lending of State credit to individuals nullified this Act, and the fund was never used. After this attempt, negotiations with the Department of Education, the Department of Finance and the Attorney General’s Office established the present base for auxiliary management of certain agricultural instructional activities.

Legislation allowing the rental of State facilities to organizations composed of faculty and/or students for cooperative campus stores was enacted in 1933. In 1941, additional legislation permitted the operation of cafeterias with the campus stores. Other legislation in 1941 permitted the leasing of State property to organizations composed of faculty and/or students for the operation of auxiliary activities, which opened the way for the more extensive development of the activities needed by the colleges and not furnished through usual State budgeting and support or not feasible through governmental processes.

In the fifties, auxiliary organizations multiplied to an extent that oversight agencies insisted on guiding principles to help shape auxiliary organization operations. A committee composed of a college president, college staff representatives, the Department of Education and the Department of Finance was appointed in 1953 to work on a statement of mutually acceptable principles. In June 1956, the Department of Education and the Department of Finance approved the developed “principles”. These principles were used as the basis for the development of lease agreements governing the operations of auxiliary organizations. In 1959, recommendations issued by the Senate Special Committee on Governmental Administration were incorporated into the previously agreed upon principles, and *Education Code (Ed Code) §24054* was enacted, to read:

The Department of Finance, or a public accountant selected by the organizations or funds hereafter described and in accordance with procedures prescribed by the Department of Finance, shall audit any and all state college auxiliary funds and funds of organizations using the name of the State, state college, or representing an official relationship with the college, or funds in which college officials participate as directors as part of their official position, whether such funds be maintained on campus or not. The operation of state college auxiliary organizations shall be conducted in conformity with regulations established by the Director of Education and approved by the Director of Finance.

Over the years, substantive amendments to *Ed Code §24054* (currently *Ed Code §89900 and §89901*) included the following:

- In 1961, the reference to the “Director of Education” was amended to read “the trustees”, and a requirement was added for the provision of salaries, working conditions and benefits for

full-time auxiliary organization employees comparable to state employees performing similar services.

- In 1969, requirements were added for a contracted annual audit to be submitted to the trustees and Director of Finance; the publication and wide dissemination of an audited statement of financial condition; and president responsibility for ascertaining whether expenditures are in accordance with policies of the trustees, the propriety of all expenditures, and the integrity of financial reporting. Further, only accounting procedures were now required to be approved by the Director of Finance.
- In 1970, a requirement was added for distribution of the published audited statement of financial condition at a regularly scheduled meeting of the trustees, and specific reference was made to the California State Colleges. Further, *Ed Code §24054.5* was added to define the term “auxiliary organization” and included the following entities:
 - (a) Any entity in which any state college official participates as a director as part of his official position.
 - (b) Any entity formed or operating pursuant to Article 2 (commencing with *§23801*) (currently Article 3 commencing with *§89300*) of this chapter.
 - (c) Any entity which operates a commercial service for the benefit of a state college on a state college campus or other state college property.
 - (d) Any entity whose governing instrument provides in substance that:
 - 1) Its purpose is to promote or assist a state college, or to receive gifts, property and funds to be used for the benefit of a state college or any person or organization having an official relationship therewith; and
 - 2) Any of its directors, governors, or trustees are either appointed or nominated by, or subject to, the approval of an official of a state college, or selected, ex officio, from the membership of the student body or the faculty or the administrative staff of a state college.
 - (e) Any entity whose governing instrument provides in substance that:
 - 1) Its purpose is to promote or assist the trustees or the California State Colleges, or to receive gifts, property and funds to be used for the benefit of the trustees or the California State Colleges or any person or organization having an official relationship therewith; and
 - 2) Any of its directors, governors, or trustees are either appointed or nominated by, or subject to, the approval of an official of the California State College, or selected, ex officio, from the membership of the trustees or the administrative staff of the California State Colleges.
 - (f) Any entity which, exclusive of the foregoing subdivisions of this section, is designated as an auxiliary organization by the trustees.

- In 1971, each auxiliary organization described in *Ed Code §24054.5* was required to select a certified public accountant, and the Office of the Chancellor was required to forward applicable auditing and reporting procedures to the selected public accountants.
- In the 1980's, various other sections within *Ed Code §89900 et seq.* were added related to governance and fiscal viability.

At about the same time, a committee comprised of two CSU presidents and a Department of Education representative was formed to clarify the “principles” and establish standards of operation. The committee paraphrased the “principles”, which were incorporated into *Title 5* on August 6, 1960. Original *Title 5* requirements were basic and included the following selected sections:

§42400 Definition – A state college auxiliary organization is an organization specified in *Ed Code §24054*.

§42401 Declaration of Policy – All activities necessary to the educational program of a state college, including service functions, are an integral part of the college program and should be so operated. Because, however, self-government in student affairs is desirable and because some activities cannot be operated effectively and without undue difficulty under the usual governmental budgetary, purchasing and other fiscal controls, activities may be undertaken by an auxiliary organization in order, to foster self-government in student affairs and to provide effective operation and eliminate the undue difficulty which would otherwise arise under such controls.

§42500 Functions – A written agreement is required for the performance by an auxiliary organization of any of the following functions:

- (a) Operation of a semi-commercial enterprise considered by the college to be necessary to provide students with experience paralleling, as closely as possible, commercial practice.
- (b) Operation of service functions that the Board of Trustees or their designated representative finds cannot be operated as effectively and without undue difficulty under normal state administrative budgetary, purchasing, and other fiscal controls. Such service functions may include, but shall not be limited to, the operation and management of, or furnishing of, trailer courts, food services, bookstores, health service, housing units, farms, orchards, livestock projects, research projects, workshops, institutes, and conferences.
- (c) Administration of gifts, bequests, and devises to the auxiliary organization to be used for the benefit of the college or its students.

§42501 Contents of Written Agreement – The written agreement required by *§42500* shall, among other things, specify the following:

- (a) The functions which the organization is to administer.
- (b) The necessity for administration of the functions by the auxiliary organization instead of the college under usual state procedures.
- (c) The areas of authority and responsibility of the auxiliary organization and the college.

In 1969, substantive amendments to the above *Title 5* sections, renumbering of §42501 to §42502 and the addition of a new §42501 included the following:

§42400 Definition – A campus auxiliary organization is an organization which is (a) included in the list of auxiliary organizations in good standing maintained by the Chancellor pursuant to §42406, *infra*, and (b) which is an organization specified in *Ed Code* §24054 (currently *Ed Code* §89900 and §89901), which is any organization using the name of the State or a campus, or representing an official relationship with a campus, or in which any campus official participates as a director as part of his official position. The term, “auxiliary organization” includes student body organizations and other student groups which are subject to the provisions of *Ed Code* §24054; provided, that other than student body organizations, all student clubs, societies, sororities, fraternities and similar student groups not operating any commercial activity at the campus, are not subject to the further provisions of this Article, and may represent an official relationship to the campus and may use its facilities, subject to such policies and conditions as the Board of Trustees and the campus president may from time to time establish.

§42401 Declaration of Policy – All activities necessary to the educational program of a state college, including service functions, are an integral part of the college program and should be so operated. The objectives of the auxiliary organizations are as follows:

- (a) To provide for student self-government, and
- (b) To provide the fiscal means and the management procedures that allow the campus to carry on activities providing those instructional and service aids not normally furnished by the State budget, and
- (c) To provide effective operation and to eliminate the undue difficulty which would otherwise arise under the usual governmental budgetary, purchasing and other fiscal controls, and
- (d) To provide fiscal procedures and management systems that allow effective coordination of the auxiliary activities with the campus in accordance with sound business practices.

§42500 Functions – The functions to be undertaken by auxiliary organizations are for the purpose of providing essential activities which are an integral part of the college educational program.

- (a) The following functions have been determined by the Trustees to be appropriate for auxiliary organizations to operate, administer, and manage in accordance with Trustee policies:
 - 1) Student Association Activities;
 - 2) Bookstores;
 - 3) Food and College Services;
 - 4) College Union Facilities and Programs;
 - 5) Housing Facilities;
 - 6) Loans, Scholarships, Grants-in-Aids;
 - 7) Research, Workshops, Conferences, Institutes and Federal Projects;
 - 8) Instructionally-related Programs, including Agriculture;
 - 9) Alumni Activities;
 - 10) Supplementary Health Services;
 - 11) Gifts, Bequests, Devises, Endowments and Trusts;
 - 12) Public Relations Programs.

- (b) Whenever feasible, gifts should be accepted under the provision of *Ed Code §24000* or *§24001*.
- (c) No auxiliary organization may enter into any contract or other business arrangement acquiring or affecting real property either by purchase or lease, involving payments of more than \$10,000 per annum and duration terms of more than one year, without prior notification and consultation with the Office of the Chancellor.
- (d) Loans, scholarships and grants-in-aid shall only be given to currently admitted students. In no case shall the scholarship or grants-in-aid exceed the amount necessary to cover books, school fees, and living expenses, except as provided under *§42403*.
- (e) An auxiliary organization shall not engage in a function not listed in subdivision (a) of this section unless an appropriate amendment is made to subdivision (a) by the Board of Trustees, adding said function to the list of approved functions of auxiliary organizations, or unless such function is essential to satisfy the corporation laws of the State of California.

§42501 Requirement of Written Agreement – A written agreement on behalf of the State of California by the Chancellor of the California State Colleges and the auxiliary organization is required for the performance by such auxiliary organization of any of the functions listed in *§42500*, except student association activities. If an auxiliary organization performs more than a single function, then the written agreement may cover any number of the functions it performs on the campus or a separate agreement may cover each function performed.

§42502 Contents of Written Agreement – The written agreement required by *§42501* shall, among other things, specify the following:

- (a) The function or functions which the organization is to manage, operate or administer.
- (b) The necessity for administration of the function by the auxiliary organization instead of by the college under usual state procedures.
- (c) The areas of authority and responsibility of the auxiliary organization and the college.
- (d) The facilities to be made available to permit the auxiliary organization to perform the functions specified in the written agreement.
- (e) The charge or rental to be paid for the facilities used in connection with the performance of its functions.
- (f) Full reimbursement to the State for services performed by state employees under the direction of the organization.
- (g) A simple but equitable method of determining in advance to what extent the organization shall be liable for indirect costs relating to federally-sponsored programs.
- (h) The responsibility for maintenance and payment of operating expenses.
- (i) Proposed expenditures for public relations or other purposes which would serve to augment state appropriations for operation of the college.
- (j) The disposition to be made of net earnings derived from the operation of facilities owned or leased by the auxiliary organization and provisions for reserves.
- (k) The disposition to be made of net assets on dissolution of the auxiliary organization or cessation of the operations under the agreement.
- (l) The covenant of the auxiliary organization to maintain its organization and to operate in accordance with the regulations contained in this Subchapter and Trustees resolutions.

§42400 and *§42401* remained relatively unchanged since 1969. However, substantive amendments to the other sections included the following:

§42500 Functions – In 1981, the list of authorized functions was refined in some instances and expanded to include Stipends and Related Financial Assistance; Externally Funded Projects; Athletics, Radio and Television Stations, Newspapers, Films, Transportation, Printing, and other Instructionally Related Programs and Activities; and Fund-raising, Fund Management, and similar development programs. In 1989, the Acquisition and Development of Real Property was added. In 1999, the ability to enter into financing transactions and issue debt instruments was added.

§42501 Requirement of Written Agreement – In 1981, a requirement for the authority for student projects involving agricultural, vocational, or other instructional activities was required to be incorporated into the written agreement.

§42502 Contents of Written Agreement – In 1981, subsection (c) was amended to read “Service by any state officer or employee shall not be incompatible, inconsistent, or in conflict with his or her duties as a state officer or employee”. The reference to federally-sponsored programs was deleted from subsection (g). Subsection (m) was added stating that the operations of auxiliary organizations shall be integrated with campus operations and so supervised as to comply with objectives stated in §42401.

In 1995, a new Article *Title 5 §42665 et seq.* was added to *Title 5* for the establishment of a systemwide auxiliary organization to permit the establishment of for-profit subsidiary organizations. No further substantive amendments have been made to the above selected *Title 5* sections since 1999.

Appendix B

CSU Auxiliary Organizations

Mitigation of Internal Control Risk

In 1997, a joint power authority—the California State University Risk Management Authority (CSURMA)—composed of CSU and its auxiliary organizations. Within ten years, all auxiliary organizations joined the CSURMA. Most recently, the CSU created a separate risk pool for auxiliary organizations—the Auxiliary Organizations Risk Management Alliance (AORMA). Purchasing insurance coverage through these risk pools significantly lowered costs for liability, workers compensation, and for many other specialty coverages.

In 1998, Executive Order (E.O.) 682 (later superseded by E.O. 698. in 1999), clarified expectations for oversight of auxiliary organizations and established a requirement of regular internal audits. The nature and scope of these audits has expanded over time, including significant increase in the number of audit staff assigned to the audit of auxiliary organizations.

E.O. 731, in 2000 required each campus to designate a CFO. The CFO's responsibility to oversee the activities of auxiliary organizations was clearly established. Since 2000, Campus Presidents moved on the Chancellor's direction to make many top auxiliary organization executive officers university employees.

In 2000, E.O. 732 codified a compilation of policies and procedures for CSU auxiliary organizations which included "best practices" guidance developed by CABO to improve control over fiscal operations.

E.O. 751, also in 2000, clarified each university's programmatic authority/responsibility over the establishing all CSU centers or institutes and clearly delineated requirements when a center or institute could be established by an auxiliary organization.

E.O. 753 mandated that each university develop a detailed cost allocation plan in 2000, assuring full reimbursement to the university when services and supplies were provided to auxiliary organizations. E.O. 753 was superseded by E.O. 1000 in 2007 which delegated authority to campus presidents to manage funds consistent with a modification made to the Education Code allowing the university to deposit certain fees in local trust accounts

Control over auxiliary borrowing for capital projects was improved when the system wide revenue bond program was established. E.O. 876 issued in 2003 (superseded by E.O. 994 in Oct 2006) established financing policies and procedure for the development of capital projects that supported by auxiliary revenues.

Control over contract and grant activities administered by auxiliary organizations was improved through implementation of E.O. 890 in 2004. In the following year, the Chancellor's Office established a central office to provide guidance and support regarding contracts and grants to campuses.

E.O. 919 was issued in 2004, providing guidance to campuses on the administration of their non-General Fund receipts subject to local campus control. The E.O. was written to ensure that funds are held in proper accounts and are administered in accordance with applicable laws and regulations. The E.O. prohibited auxiliary organizations from holding university funds as a matter of policy. E.O. 919 was superseded by E.O. 1000 in 2007. However, it was silent as to whether or not auxiliary organizations could hold university funds.

Proposal for the Process of Providing Student Representation on CSU Auxiliaries

Trustee policy¹ clearly establishes the importance of student representation on university auxiliary boards. Governing boards of student body organizations are specifically required to consist primarily of students. University Associated Students organizations choose their boards through selection procedures guided by their constitution, bylaws and/or policies. The boards of other university auxiliaries are to include a student representative² as appointed by the university president.

The Review Committee proposes that a university's officially recognized student body organization (typically referred to as ASI) be responsible for nominating potential student board members to the campus president. This recommendation is not intended to supersede any current authority delegated to a student body organization granted by existing Executive Order or university policy when such policy calls for student elections for certain positions or when an elected student body president is appointed to a student union board.

Proposed Process

The university president should identify the boards that will need a new student representative. The president may identify specific skills or attributes necessary for the position. Reasonable time frames for the identification of nominees should be agreed upon in advance, and should take into consideration both the schedule of upcoming auxiliary board meetings and give sufficient time for the ASI to identify nominees.

If the university president determines that the ASI has not provided a nominee or nominees of the appropriate caliber, the president may ask for new nominations. The ASI should again identify a nominee or nominees within a reasonable time frame. The process will continue until the university president appoints a nominee. If the student body organization is unable to identify a candidate within the time frames agreed upon, the university president may appoint a student identified by the university.

¹ Title V §42602. Composition of Board of Directors

² Title V §42602 Approved auxiliary organizations, other than student body organizations, operating on April 1, 1969, may continue the composition of their governing boards of directors existing at that time.

MONTH 00, YEAR

MEMORANDUM

TO: CSU Presidents

FROM: Charles B. Reed
Chancellor

SUBJECT: Utilization of Campus Auxiliary Organizations

Attached is a copy of Executive Order Number XXXX, which establishes the CSU policy for appropriate utilization of campus auxiliary organizations.

This executive order augments and supplements the following policies and any successors pertaining to auxiliary organizations.

<i>No.</i>	<i>Title</i>
698	Board of Trustees Policy for the California State University Auxiliary Organizations
732	Compilation of Policies and Procedures Pertaining to California State University Auxiliary Organizations
751	Centers, Institutes, and Similar Organizations on Campuses of the California State University
849	California State University Insurance Requirements
890	Administration of Grants and Contracts in Support of Sponsored Programs
1000	Delegation of Fiscal Authority and Responsibility

In accordance with policy of the California State University, the campus president has responsibility for implementing executive orders where applicable and for maintaining the campus repository and index for all executive orders.

If you have questions regarding this executive order, please call -----

CBR/

Attachment

c: Vice Presidents, Business/Administration
Executive Staff, Office of the Chancellor

**The California State University
Office of the Chancellor
401 Golden Shore
Long Beach, California 90802-4210
(562) 951-4540**

Executive Order: XXXX
Effective Date: MONTH 00, YEAR
Supersedes: Executive Order No. 1052
Title: Utilization of Campus Auxiliary Organizations

This Executive Order is issued pursuant to parts d. and h. of section VI of the Standing Orders of the Board of Trustees of The California State University, and the Education Code, Division 8, Part 55, Chapter 6, and Article 2 §89720 et seq. and Article 4 §89756. This Executive Order establishes the CSU policy for appropriate use of campus auxiliary organizations and augments and supplements any existing CSU policies pertaining to auxiliary organizations not superseded herewith.

I. Definitions

The “California State University,” “CSU,” “Board of Trustees,” and “Trustees” refer to the entity established in the California Education Code, Title 3, Division 5, General Provisions, Part 40, §66010 et seq., §66011 et seq., §66600 et seq.

“Campuses” and “campus” are the institutions established in the California Education Code, Division 8, Part 55, §89001 et seq.

“Auxiliary organizations” and “campus auxiliary organizations” are the legal entities that have been established and organized by the CSU pursuant to the California Education Code, Division 8, Part 55, Chapter 7, §89900 et seq and pursuant to the California Code of Regulations, Title 5, Division 5, Subchapter 6, Articles 1 through 4, inclusive.

The “chief financial officer” is the person designated by the campus president pursuant to Executive Order No. 731: Designation of Chief Financial Officer.

“Shall” and “shall not” are mandatory. “May” is discretionary.

II. Campus Oversight of Auxiliary Organizations

- A. The separate legal status of auxiliary organizations enables strategies that are important to the campus educational mission and provides capabilities essential to a comprehensive university.
- B. The campus president is responsible and accountable for prudent judgment in the utilization

of campus auxiliary organizations, for ensuring the fiscal viability of campus auxiliary organizations, and for compliance with CSU policies.

- C. The campus chief financial officer shall be the primary responsible campus official in respect to administrative compliance and fiscal oversight of campus auxiliary organizations.

III. Campus Utilization of Auxiliary Organizations

- A. Campus auxiliary organizations are California nonprofit corporations which are legally separate from the State of California and are organized and operated solely for the benefit of the campus. Campus auxiliary organizations shall be integral to the CSU educational mission and programs. Campus auxiliary organizations shall not operate outside the regulation and oversight of the campus.
- B. The campus, with the approval of the Chancellor (or designees), may assign certain functions to campus auxiliary organizations pursuant to the California Code of Regulations, Title 5, Division 5, Subchapter 6, Article 2, §42500. A written agreement on behalf of the State of California by the Chancellor of The CSU and the auxiliary organization is required for the performance by an auxiliary organization of any of the functions listed in Section 42500, except for the student government activities of a student body organization. The campus is not required to assign any of the Section 42500 functions to any auxiliary organization and auxiliary organizations shall not perform functions that have not been assigned by the campus.
- C. The legal ownership by an auxiliary organization of any activities assigned to it, exclusive of any revenues disallowed in part F, below, shall be evidenced by assumption of the associated legal obligations and liabilities, fiscal liabilities, and fiduciary responsibilities. Auxiliary organizations shall establish and maintain policies for risk management, financial reporting, and administrative internal controls, at a minimum.
- D. Employees of the campus, who may or may not be officers of the auxiliary organization, may request or approve the receipt or disbursement of funds held by a campus auxiliary organization, exclusive of any revenues disallowed in part F, below. The duly authorized chief operating officer of the auxiliary organization, or designees, shall establish appropriate corporate delegations of fiscal authority and ensure that receipts and disbursements comply with the auxiliary organization fiscal policies and internal controls and with the written agreement with the university. The auxiliary organization shall retain any legal obligations and liabilities, fiscal liabilities, and fiduciary responsibilities associated with transactions initiated or approved by campus employees.
- E. The campus shall review, at least every five years, the activities of campus auxiliary organizations to ensure that written agreements are current and that auxiliary organization activities are in compliance with campus agreements.
- F. The campus shall not assign to any auxiliary organizations any of the following revenues. The following revenues shall be solely the revenues of the campus and shall be reported in compliance with Executive Order No. 1000: Delegation of Fiscal Authority and

Responsibility.

1. Revenues from CSU systemwide mandatory fees which includes student fees established and adjusted by the Board of Trustees and that must be paid to apply to, enroll in, or attend the university, or to pay the full cost of instruction required of some students by state statute.

2. Revenues from campus mandatory fees which include student fees established for a campus and that must be paid to enroll in or attend the university.

A campus may disburse the membership fees collected on behalf of a student body organization or other fees collected on behalf of such organizations to the respective campus auxiliary organizations, if any, and if the fees are not otherwise designated by a student fee referendum. The campus shall be the custodian of fees collected on behalf of a student body organization. These funds may be disbursed by the campus only upon submission of a claim schedule by the student body organization.

All mandatory student body center fee revenues combined with other student fee revenues enumerated in the Education Code are pledged by the Trustees to any holder of a CSU Systemwide Revenue Bond. The Education Code, bond indenture, and CSU policy require the funding of designated reserves and require that campuses properly maintain any facility acquired or constructed with the proceeds of revenue bond sales. The campus shall collect and be the custodian of student body center fees. The campus may disburse the student body center fees collected on behalf of a campus auxiliary organization, if any, only after complying with bond debt service and reserve funding requirements and if the fees are not otherwise designated by a student fee referendum. These funds may be disbursed by the campus only upon submission of a claim schedule by the campus auxiliary organization, if any.

The campus shall ensure that auxiliary organization expenditures of these fee revenues comply with the approved purposes of the fees and with Board of Trustees and campus policy.

3. Revenues from campus student fees directly related to any state-supported course of instruction which includes Miscellaneous Course Fees and student fees for materials, services, field trips, and travel.
4. Revenues from fees paid by matriculated CSU students to attend campus self-supported instructional programs for academic credit.

Charles B. Reed, Chancellor

Date: Month 00, Year

COMMITTEE ON FINANCE

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

Presentation By

George V. Ashkar
Assistant Vice Chancellor
Financial Services

Summary

This item requests the CSU Board of Trustees to authorize the issuance of Systemwide Revenue Bonds and the issuance of Bond Anticipation Notes (BANS) to support interim financing under the commercial paper program of the California State University in an aggregate not-to-exceed amount of \$36,395,000 to provide financing for a campus project. The board is requested to approve resolutions related to the financing of the project. 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 project is as follows:

San Marcos University Student Union Project

In July 2010, the board approved the amendment of the non-state capital outlay program for the San Marcos university student union project. Schematic design approval of this project is being considered during the March board meeting. Presently, the University Student Union Advisory Board is housed temporarily in the M. Gordon Clarke Field House. The project will be located southwest of the Field House and will provide a large ballroom, meeting rooms, Associated Student and student organization offices, food services, lounges, a coffee shop, and a recreational area for students.

The not-to-exceed par value of the proposed bonds is \$36,395,000 and is based on a total project cost of \$43,980,000 and a \$13,755,000 program reserve contribution to the project. Additional net financing costs (estimated at \$6,169,000) are to be funded from the bond proceeds. The campus received good bids in November 2010 for this Design-Bid project, and anticipates a construction start in April 2012 with completion in September 2013.

The following table summarizes key information about this financing transaction.

Not-to-exceed amount	\$36,395,000
Amortization	Approximately level over 30 years
Projected maximum annual debt service	\$2,649,909
Projected debt service coverage including the new project: Net revenue – All San Marcos pledged revenue programs: ¹	1.34
Net revenue – Projected for the campus student union program:	1.10

1. Combines 2009-10 information for all campus pledged revenue programs and projected 2014-15 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 6.26 percent, 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 1.10 in the first full year of operations in 2014-2015, which meets the CSU benchmark of 1.10, with improving coverages thereafter. With the new project, the campus' overall net revenue debt service coverage for the first full year of operations is projected to be 1.34, which is slightly below the CSU benchmark of 1.35. The campus anticipates that it will meet the 1.35 campus benchmark in the subsequent year, with improving coverages thereafter.

Trustee Resolutions and Recommended Action

Orrick, Herrington & Sutcliffe LLP, as bond counsel, is preparing a set of resolutions to be presented at the March 22, 2011 meeting for the project described in this agenda item that authorizes 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 \$36,395,000 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 Agenda Item 3 of the Committee on Finance at the March 22, 2011 meeting of the CSU Board of Trustees is recommended for:

San Marcos University Student Union Project