

## **AGENDA**

### **COMMITTEE ON FINANCE**

**Meeting: 2:45 p.m., Tuesday, May 19, 2015**  
**Glenn S. Dumke Auditorium**

Rebecca D. Eisen, Acting Chair  
Steven M. Glazer, Vice Chair  
Talar Alexanian  
Adam Day  
Rebecca D. Eisen  
Debra S. Farar  
Margaret Fortune  
Lupe C. Garcia

#### **Consent Items**

Approval of Minutes of Meeting of March 25, 2015

#### **Discussion Items**

1. Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for Projects at San Francisco State University and San Diego State University, *Action*
2. Approval to Extend the Bond Anticipation Note and Bond Sale Dates for an Auxiliary Project at California State University, Fullerton, *Action*
3. Report of the 2015-2016 Support Budget, *Information*
4. California State University Auxiliary Organizations, *Information*

**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**

**March 25, 2015**

**Members Present**

Roberta Achtenberg, Chair  
Talar Alexanian  
Rebecca D. Eisen  
Debra S. Farar  
Margaret Fortune  
Lou Monville, Chair of the Board  
Timothy P. White, Chancellor

Trustee Achtenberg called the meeting to order.

**Approval of Minutes**

The minutes of January 28, 2015 were approved by consent as submitted.

**Public Comments**

Trustee Achtenberg introduced seven public speakers. All of the speakers were there to comment on the University Glen Phase II expansion at California State University Channel Islands. In particular, there was concern that an apartment complex could increase traffic congestion, crime and noise. In addition, there was concern expressed about safety in the event of an area evacuation. There was also concern that an outside company may not enforce good behavior for student occupied units and that rent would go up. Mr. Considine, Site Authority chair, commented that there was no intention to change the environment. He stated that the process would be inclusive and collegial and that there will be an opportunity for residents to be a part of the process. He stated that by approving this agenda item today, the board would allow the Site Authority to explore those options.

**Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for Projects at Sacramento State University, CSU Los Angeles, and CSU Northridge**

Mr. Robert Eaton, Assistant Vice Chancellor for Financing, Treasury, and Risk Management presented four projects for which financing through CSU's Systemwide Revenue Bond and commercial paper programs are being requested. He noted that additional action for the first

project was approved during the meeting of the Committee on Campus Planning, Buildings and Grounds earlier this board meeting.

The first project is the Student Housing, Phase II Project at the Sacramento campus. The requested not-to-exceed amount for this project is \$50,200,000, based upon a project budget of just under \$55 million and a reserve contribution of approximately \$11.3 million from the campus housing program. The debt service coverage ratios for this project are good, exceeding the CSU benchmarks for both the campus and the program. Staff recommended approval of financing for the project as presented in the item.

The second project is the refinancing of bonds issued by University Enterprises, Inc., a recognized auxiliary in good standing at the Sacramento campus. He stated that outstanding auxiliary bonds of approximately \$16 million would be refinanced with Systemwide Revenues Bonds in a not-to-exceed amount of \$15,160,000, producing an estimated net present value savings of approximately \$892,000, or 5.6 percent of the prior bonds. He stated staff recommended approval of the refinancing as presented in the item.

The third project is the refinancing of an outstanding commercial loan obligation of Cal State L.A. University Auxiliary Services, Inc., a recognized auxiliary in good standing at the Los Angeles campus. In June 2010, the auxiliary borrowed \$2.2 million from the Cal State L.A. Federal Credit Union to acquire property adjacent to the campus in order to provide space for academic programs in television, film, and media studies. He added that the refinancing of the loan would allow the auxiliary to lower its cost of borrowing, and do so on a longer-term permanent financing basis. He stated this was consistent with the structure originally approved by the board in May 2010. The outstanding loan balance, accrued interest, and other financing costs would be refinanced with Systemwide Revenue Bonds in a not-to-exceed amount of \$1,940,000. The debt service coverage ratios for this project are good, exceeding the CSU benchmarks for both the campus and the project. Staff recommended approval of financing for the project as presented in the item.

The fourth and final project is The University Corporation, 9324 Reseda Boulevard Building Acquisition at the Northridge campus. He stated The University Corporation, a recognized auxiliary organization in good standing at the campus, is seeking financing approval to fund the purchase of off-campus real property. The project would provide long-term space for campus academic programs and short-term lease space to a technology incubator firm, as part of a three-year service agreement with the campus to promote collaborative research and internship opportunities. He stated that upon the expiration of the private lease, the auxiliary would lease the space on a long-term basis to the campus. He added that in November 2014, the auxiliary entered into a purchase and sale agreement with a private seller to acquire the property at a total purchase price of \$3,000,000. At that time, the property was appraised at a fair market value of \$2,600,000. However, he added, the seller had also received a bona fide offer from another party to purchase the property for \$3.1 million, an offer that had been verified by the campus and provided an additional indication of the market value of the property and supported the \$3 million purchase price. Also, based upon a goal of the campus and the auxiliary to expand its

presence on Reseda Boulevard, the \$400,000 premium relative to the appraised value is justified. Capital improvement costs associated with bringing the project in compliance with CSU code is estimated at \$1,400,000. He stated that of the \$4,400,000 dollars required to acquire and improve the project, \$3,400,000 would be funded through Systemwide Revenue Bond financing and the remaining \$1,000,000 would be funded through auxiliary reserves. He stated the purchase is subject to financing approval by the board. He added the requested not-to-exceed amount for this project is \$3,500,000, based upon the \$3,400,000 portion of acquisition and improvement costs plus other financing costs. The debt service coverage ratios for this project are good, exceeding the CSU benchmarks for both the campus and the project. He stated that staff recommended approval of financing for the project as presented in the item.

Trustee Lillian Kimbell asked for a better understanding of auxiliary organizations and how they work. Mr. Relyea responded that auxiliaries are retail and self-funded enterprises that support the mission of the university and have more financial flexibility because they are not funded with state resources. He added that there are currently over 90 auxiliaries in the system and provided examples such as a university bookstore or student housing. Mr. Eaton added that university leadership is involved by serving on auxiliary boards and governing the audits of these entities.

Chair Achtenberg requested an information item on university auxiliaries at a future board meeting. She added that it is extremely important for trustees to understand what they are responsible for and who works for the auxiliaries.

Trustee Peter Taylor asked Mr. Eaton if, as part of the board's approval to issue bonds, authority is delegated to staff to refinance bonds without having to return to the board. Mr. Eaton confirmed that is the case, and allows the CSU to take advantage of changing market conditions.

Trustee Taylor then asked for clarification on the second project that was presented relating to the Sacramento auxiliary bond refinancing. He asked if this refinancing was being presented to the board for approval because stand-alone auxiliary bonds are being refinanced into the Systemwide Revenue Bond (SRB) program. Mr. Eaton responded yes and added that since this stand-alone legal entity issued its own bonds, action is needed to get authorization from the board to refinance the debt into the CSU's SRB program. He stated that after the refinancing of these bonds, there would be one outstanding auxiliary bond in the system that would not be refinanced for some time because it is taxable and has restrictions.

The committee recommended approval to issue Trustees of the California State University Systemwide Revenue Bonds and Related Debt Instruments for projects at California State University, Sacramento, California State University, Los Angeles, and California State University, Northridge (RFIN 03-15-06).

### **Conceptual Approval of a Public/Private Partnership Multi-Family Housing Development Project at California State University Channel Islands**

Mr. George Ashkar, Assistant Vice Chancellor/Controller for Financial Services, stated that California State University Channel Islands requests the conceptual approval to pursue the first project of the “CI 2025” strategy. He stated that unlike more developed CSU campuses, Channel Islands is challenged to build critically needed facilities to accommodate enrollment expansion. The campus has recognized it is imperative to identify alternative ways to fund and build academic and student support facilities. He stated that the proposed project includes the construction of rental apartments at University Glen on Site Authority leased land and new apartments, retail, and mixed use space at Town Center. It is proposed that the Site Authority enter into a ground lease on the project site with a private developer, who will be responsible for financing, construction, and management of the property during the term of the lease. Analysis of the real estate market in Ventura County supports this strategy. He stated the development of this project, with the expected lease payments under the ground lease, would provide additional revenues to meet Site Authority debt service and reduce or eliminate the financial contributions from the Chancellor’s Office.

CSU Channel Islands President Richard Rush stated he was pleased to present the first project of the CI 2025 vision plan. He added that Channel Islands is the newest campus in the system and the fastest growing public university in the country as identified by the *Chronicle for Higher Education*. He stated that Channel Islands faces challenges regarding how to provide new facilities that serve the academic needs of the campus and is exploring how to develop the facilities using innovative methods that promote local partnerships while reducing the risk to the campus.

He stated that in 1998, SB 623 prompted the transfer of the Camarillo state hospital to the CSU. When the Legislature conveyed the property to the CSU it also enacted legislation that created Channel Island’s Site Authority to provide for the financing and support of the transition of the site.

President Rush concluded by stating that the board’s conceptual approval would enable the campus to pursue an innovative way to develop the campus without having to rely solely on state support as has been traditional in the CSU. It would also enable the Site Authority to reduce the bond debt incurred from infrastructure and construction of University Glen Town Center. He added the Site Authority proposes to partner with a qualified development team to determine the scope of the project and manage its development. This partnership would enable the building of new residences, expand University Town Center for a larger social hub, and reduce space pressure on the campus. He stated that with the improvements in the housing market now is the right time to capitalize on the opportunity to complete University Glen and the Town Center. He stated he is grateful to the staff at the Chancellor’s Office for their support and looks forward to receiving the board’s conceptual approval now and then returning to the board for approval of specific projects as they are developed.

Mr. Ashkar stated that staff would like to request approval of the concept of the public/private partnership and authorize the Chancellor's Office and Site Authority to negotiate terms and additional action items relating to the final plan as outlined in the agenda item.

Trustee Rebecca Eisen asked for clarification as to whether the board was approving the concept of a private/public partnership as a mechanism for financing the development, or if the board was also approving the concept of the development itself. President Rush responded that it would be a conceptual approval of a partnership and added that the details of the development are yet to be determined.

Trustee Eisen supported the notion of the public/private partnership, but requested a slight revision to the resolution language that would not lock in the development to apartments only.

Chair Achtenberg stated she would like to make the amendment to the motion to have it read "Conceptual approval of Public/Private Partnership for residential and retail development."

Trustee Monville thanked President Rush and the Site Authority for the care and work with their neighbors. He also thanked former colleague Mr. Considine for his continued service to the mission of Channel Islands.

Trustee Farar, who sits on the Site Authority, reassured the board that this project has support from the community and encouraged other board members to visit the campus.

The committee recommended Conceptual approval of Public/Private Partnership for residential and retail development at California State University Channel Islands (RFIN 03-15-07).

### **California State University Annual Debt Report**

Mr. Eaton stated that this item provides a report to the board on the CSU's Systemwide Revenue Bond (SRB) program. He reported that the SRB program continued to be strong, providing campuses with reliable access to low cost financing to meet their capital needs. He added that the SRB program is rated Aa2 from Moody's and AA- from Standard & Poor's, with stable outlooks from both rating agencies. These ratings compare favorably to the State of California's ratings of Aa3 and A+ respectively on its General Obligation bonds. Current outstanding SRB debt is approximately \$3.7 billion with a weighted average cost of capital of 4.32%.

Since the last report to the board the CSU has had one issuance of SRB debt which closed in August 2014 and totaled \$748 million. Approximately \$307 million, of that amount, was issued for new money projects at an all-in true interest cost of 3.90 percent. The remaining \$440 million was used to refinance existing SRB and auxiliary debt which produced a net present value savings of \$53 million, or about \$3 million in savings per year across the system. He added that there are plans to sell bonds in late June 2015 or early July 2015 through the SRB program and it is anticipated that the sale would include funding for new money projects of approximately \$450 million, including approximately \$120 million under the new capital financing authorities.

He added that because interest rates are currently low staff also expects to refinance a significant amount of existing SRB debt for savings. The amount of the bonds that would be refinanced and the expected savings are dependent upon rates at the time of the sale.

Trustee Eisen inquired if the refunding of debt is the same as refinancing. Mr. Eaton responded it was the same and is a financing term. Trustee Taylor inquired as to why there was no variable rate debt in the portfolio. Mr. Eaton responded that the structure of our debt program—one that is project or program based as opposed to a centralized bank system—made it difficult to implement a variable rate program. He added, however, that staff will consider variable rate debt as part of the new capital authorities. Trustee Taylor asked if staff had considered a central bank. Eaton noted that while it is something that staff has thought about, it would involve a significant change in how we manage our debt and with the new capital financing authorities, the thinking is to first implement the significant changes required to take advantage of the new capital financing authorities and then turn our attention to the possibility of a central bank structure, which could have benefits to the system. Trustee Faigin asked about references to non-revenue generating projects, to which Mr. Eaton responded that was in regard to projects approved by the Board in the January 2015 meeting for financing under the new capital financing authorities. Those projects, such as deferred maintenance and critical infrastructure do not generate revenues on their own and would be covered by the base of revenues until such time as additional revenues are pledged. Trustee Eisen requested more information on a central bank. Mr. Eaton responded that a central bank is the managing and issuing of debt centrally without regard to the project. He stated that currently, approved projects are put on a list for the next bond sale and the campus receives whatever rate is available at that time. As an example, he added that in 2009 projects were subject to a 5.4 percent interest rate whereas in 2010 it was 4.3 percent. He stated that a central bank would set an internal rate for all projects and the overall debt program would be managed with a cost of capital target below the internal rate. Under a central bank structure, the CSU could take advantage of other types of financing, such as a variable rate program, that could lower the overall cost of borrowing. Chancellor White added that a central bank would increase the predictability for campus projects. Trustee Taylor requested a finance briefing since he was new to the board.

### **Update on Administrative Efficiency Initiatives**

Mr. Steve Relyea, Executive Vice Chancellor and Chief Financial Officer provided an update on the university's administrative efficiency initiatives. He stated that, as mentioned during Chancellor White's State of the CSU address in January 2015, the CSU has \$8,000 less today per degree earned than it did just ten years ago. He added that, over this same time frame, the rate of CSU degrees earned has increased by 20,000 resulting in more educated workers and contributors to society per year, helping to meet the state's economic and social needs. Much of this success can be attributed to the CSU's commitment to efficiency. He commented that the CSU simply cannot serve the increasing student population, increasing transactions, and increasing compliance requirements without finding creative ways to streamline operations, reduce costs, and avoid future costs.

Mr. Relyea shared that campuses are highly motivated to find new ways to work together to streamline operations and avoid costs since the savings stay on the campuses and are critical to the financial stability of campus programs. He stated that campus staff is also working closely with colleagues in the University of California and California Community Colleges to find ways to leverage size and talents. He added that creating a culture that supports and enables continuous improvement of administrative processes is essential and process improvement workshops offered by staff represent this effort. As a result of data collection and brain storming sessions, potential initiatives are identified and prioritized.

Mr. Relyea then provided an overview of current initiatives, stating that common network initiative provides network equipment and related services to ensure that every campus has a robust communications infrastructure. He added that the CSU has avoided \$37 million in costs since fiscal year 2011-2012 as a result of common standards, practices, and sound project management processes. By collaborating with K-12, California Community Colleges, and the University of California for wide area network connectivity, the University has met the high growth in bandwidth needs while keeping the costs for the bandwidth utilization from increasing. He stated that over \$2 million are saved annually by hosting the data center in an offsite cloud facility. He added that by consolidating individual campus enterprise software agreements into a single systemwide contract \$2.5 million of costs have been avoided over five years. In addition, consolidating individual campus financial systems into a single instance and subsequent enhancements to that system has reduced software maintenance costs and eliminated software development costs at the campuses.

Through the effective management of the CSU's debt portfolio, over \$50 million in financing costs had been reduced over the past year. He also added that sound risk management practices have resulted in significant cost avoidance in reduced insurance claims, resulting in a \$4 million reduction in current-year insurance rates and paying \$7 million less in workers compensation claims and program costs through various mitigation programs.

Mr. Relyea stated that in the areas of energy and sustainability, university efficiency projects have avoided \$16 million in costs annually and \$19 million in incentives have been earned from energy efficiency partnerships. Over the past five years, \$18 million in electricity costs have been avoided, and recently-negotiated contracts will avoid \$30 million over the next five years. He stated that coordinating the purchasing of electronic library resources across the system has avoided significant costs each year and consolidating contracts for academic technology systems and standardizing on learning management systems has reduced future costs.

He added that the university is taking advantage of opportunities to share services whenever practical, looking to reduce costs and improve services. Examples include the Long Beach campus handling payroll processing and security services for the Chancellor's Office, the Stanislaus campus processing parking tickets for seven other CSU campuses and two community colleges, the San Jose campus providing police dispatch services for the Cal Maritime campus, and the Fullerton campus providing construction management for the Bakersfield campus.



He also stated that the CSU is maximizing its purchasing power through systemwide and collaborative purchasing and has achieved cost reductions on software purchases through a joint CSU and University of California contract that has generated \$8.2 million in savings on office and technology products. He added that leveraging the volume of purchases has created \$1.3 million in savings on facilities maintenance products. In addition, the CSU has generated over \$3 million in savings on medical supplies at student health facilities through a leveraged purchasing agreement with the state.

Earlier in the year U.S. News and World Report identified the top ranked colleges for efficiency. The top five regional universities in the western United States included Cal Poly San Luis Obispo, CSU Long Beach, and Cal Poly Pomona. The article, by Robert Morse and Diane Tolis, indicated that these campuses managed their financial resources better than schools that had more state funding, higher tuition, or larger endowments. He stated that while the article did not go beyond the top five institutions, the top ten likely would have included more CSU campuses. He added that another notable ranking of colleges and universities was released this year by Washington Monthly based on a guide written by Jane Sweetland and Paul Glastris titled “The Other College Guide, a Roadmap to the Right School for You” which considered best value based on price, graduation rates and the ability of students to earn enough to pay educational loans. He stated that five CSU campuses were in the top ten and twelve were in the top twenty-five.

He concluded by noting that in order to carry out the academic mission of the CSU and ensure student success, there must be a focus on initiatives such as those just described. Avoided costs and cost savings found through these initiatives allow campuses to utilize available funds for high-priority programs and capital projects and added that the CSU will continue to explore more opportunities to streamline processes, consolidate operations, and reduce costs in order to maximize available resources. The presidents, and their management teams, are committed to these types of initiatives, as is the Chancellor’s Office. However, he stated, resources can only stretch so far, which is why increased support from the state is critical. The only way to stop turning away qualified students and ensure a high quality educational experience is for the state to increase its investment in the CSU.

Trustee Eisen commended Mr. Relyea on an incredible presentation. She added that she believed the partnerships with the University of California and California Community Colleges are great. Trustee Taylor inquired if campuses are mandated to participate in strategic sourcing. Mr. Relyea responded that it depended on the commodity. Trustee Achtenberg added the CSU has had a long standing effort to leverage the size of the system while allowing for unique campus needs. Trustee Fortune inquired as to how the strengths of the campuses were identified. Mr. Relyea responded that this was done by sharing best practices across the system and by looking for common needs and possible areas of collaboration between campuses.

Trustee Steven Stepanek and Trustee Kimbell inquired as to how the \$8,000 per degree savings was calculated. Chancellor White responded that it was calculated by adding tuition collected to state appropriation and then dividing the total by the number of degrees awarded over ten years.

Trustee Kimbell inquired how much is spent per degree. Chancellor White responded that they would provide the amount at a future meeting. Trustee Stepanek stated that savings are often at the cost of campus needs and infrastructure.

Trustee Douglas Faigin stated he was impressed with the presentation and asked about non-economic efficiencies. Trustee Achtenberg inquired about a presentation from the presidents on how campuses are collaborating and sharing best practices academically.

Chancellor White added that efficiencies cannot be the only solution and that quality may be impacted. President Ochoa stated that an analysis showed that only 14 percent of the nation's universities are more efficient than the CSU.

## **COMMITTEE ON FINANCE**

### **Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for Projects at San Francisco State University and San Diego State University**

#### **Presentation By**

Robert Eaton  
Assistant Vice Chancellor  
Financing, Treasury, and Risk Management

#### **Background**

The Systemwide Revenue Bond (SRB) program provides capital financing for projects of the California State University – student housing, parking, student union, health center, continuing education facilities, certain auxiliary projects, and other projects approved by the CSU Board of Trustees. Revenues from these programs are used to meet operational requirements for the projects and are used to pay debt service on the bonds issued to finance the projects. The strength of the SRB program is its consolidated pledge of gross revenues to the bondholders, which has resulted in strong credit ratings and low borrowing costs for the CSU. Prior to issuance of bonds, some projects are funded through bond anticipation notes (BANs) issued by the CSU in support of its commercial paper (CP) program. The BANs are provided to the CSU Institute, a recognized systemwide auxiliary organization, to secure the CSU Institute's issuance of CP, proceeds from which are used to fund the projects. CP notes provide greater financing flexibility and lower short-term borrowing costs during project construction than would be available with long term bond financing. Proceeds from the issuance of bonds are then used to retire outstanding CP and provide any additional funding not previously covered by CP.

#### **Summary**

This item requests the CSU Board of Trustees to authorize the issuance of long term SRB financing and the issuance of BANs to support interim financing under the CP program in an aggregate amount not-to-exceed \$125,860,000 to provide financing for two campus projects. The board is being asked to approve resolutions related to these financings. Long-term bonds will be part of a future SRB sale and are expected to bear the same ratings from Moody's Investors Service and Standard & Poor's as the existing SRBs.

The financing projects are as follows:

## 1. San Francisco State University Mashouf Wellness Center Project

The San Francisco State University Mashouf Wellness Center project (previously referred to as the Recreation Wellness Center) was approved by the board in its 2012-2013 Non-State Capital Outlay program and was approved for schematics during the May 2014 Committee on Campus Planning, Buildings and Grounds meeting. The project, approximately 119,000 gross square feet (GSF), consists of a two-story facility with a two-court gymnasium, multi-purpose rooms, weight and fitness space, an elevated jogging track, a natatorium with a recreation pool, lap pool and related support space. Additionally, the project also includes an outdoor recreation field. The project will be located on 6.5 acres at the intersection of Font and Lake Merced Boulevards and will be funded from student body center fees, under the student union program.

The not-to-exceed par value of the proposed bonds is \$67,935,000 and is based on a total project budget of \$86,487,000 with a student union program reserve contribution of \$29,687,000. Additional net financing costs, such as capitalized interest and cost of issuance (estimated at \$11,135,000), are expected to be funded from bond proceeds. The project is scheduled to start construction in June 2015 with completion in November 2017.

The following table summarizes key information about this financing transaction.

Not-to-exceed amount	\$67,935,000
Amortization	Approximately level over 30 years
Projected maximum annual debt service	\$4,560,050
Projected debt service coverage including the new project: <sup>1</sup>	
Net revenue – San Francisco pledged revenue programs:	1.59
Net revenue – Projected for the campus student union program:	1.40

1. Based on campus projections of 2018-2019 operations of the project with full debt service.

The not-to-exceed amount for the project, the maximum annual debt service, and the ratios above are based on an all-in interest cost of 5.45 percent, reflective of adjusted market conditions plus 1.00 percent 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 student union program net revenue debt service coverage of 1.40 in 2018-2019, the first full year of operations, which exceeds the CSU benchmark of 1.10 for the program. When combining the project with projected information for all campus pledged revenue programs, the campus' overall net revenue debt service coverage for the first full year of operations is projected to be 1.59, which exceeds the CSU benchmark of 1.35 for the campus.

## **2. San Diego State University Research Foundation – Engineering and Interdisciplinary Sciences Complex Project**

The San Diego State University Research Foundation—Engineering and Interdisciplinary Sciences Complex is a new 81,900 GSF project, three- to five-story building consisting of teaching lab and flexible research space for the Colleges of Engineering and the Sciences. The project includes the demolition of 47,000 GSF of deteriorated space that would otherwise require \$14 million in deferred maintenance and \$1.8 million in access improvements. The project also includes a landscaped quadrangle to provide a sense of place and event location for the Science, Technology, Engineering, and Mathematics (STEM) disciplines. The design and schematic plan for this project will be presented for review and approval by the Committee on Campus Planning, Buildings and Grounds during the July 2015 Board of Trustees meeting.

The project is estimated to cost \$79.7 million and will be funded from multiple sources: \$50 million will be financed through the CSU SRB and CP programs; \$25 million will be funded from auxiliary reserves; and \$4.7 million for demolition will be funded from campus reserves and/or the 2015-2016 capital improvement program. Additionally, the campus is planning an active donation campaign with the goal of raising \$30 million to help reduce the financing for the project.

The not-to-exceed par value of the proposed bonds is \$57,925,000 which includes the above mentioned \$50 million plus an estimated \$7,925,000 for additional net financing costs, such as capitalized interest and cost of issuance. The project is scheduled to start demolition in June 2015 and will be completed in January 2018.

The following table summarizes key information about this financing transaction.

Not-to-exceed amount	\$57,925,000
Amortization	Approximately level over 30 years
Projected maximum annual debt service	\$3,888,193
Projected debt service coverage including the new project: <sup>2</sup>	
Net revenue – San Diego pledged revenue programs:	1.59
Net revenue – Projected for the auxiliary:	2.43

2. Based on campus projections of 2018-2019 operations of the project with full debt service.

The San Diego State University Research Foundation (the “Foundation”), an auxiliary organization at San Diego State University, will finance and lease the project to the campus, which will utilize the facility for academic and research purposes. On May 8, 2015, the Foundation’s board approved a resolution authorizing financing of the project through the SRB

and CP programs, and a general obligation pledge of all unrestricted net revenues, including lease revenue from the campus for the project's debt service payments.

The not-to-exceed par amount of \$57,925,000, the maximum annual debt service of \$3,888,193, and ratios above are based on an all-in interest cost of 5.45 percent, reflective of adjusted market conditions plus 1.00 percent as a cushion to account for changing for any market rate fluctuations that could occur before permanent financing bonds are sold. Debt service coverages are projected at 1.29 for the project and 2.43 for the Foundation in fiscal year 2018-2019, the first full year of debt service repayment, compared with the CSU benchmark of 1.25 for both the project and auxiliary debt program. When combining the project with 2013-2014 information for all campus pledged revenue programs and the campus' other auxiliary debt programs, the campus' overall debt service coverage is projected at 1.59 in fiscal year 2018-2019, which exceeds the CSU benchmark of 1.35 for the campus.

### **Trustee Resolutions and Recommended Action**

Orrick, Herrington & Sutcliffe LLP, as bond counsel, is preparing resolutions to be presented at this meeting that authorize interim and permanent financing for the projects described in this agenda. 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/or the related or stand-alone sale and issuance of the Trustees of the California State University Systemwide Revenue Bonds in an aggregate amount not-to-exceed \$125,860,000 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 assistant vice chancellor, Financing, Treasury, and Risk Management; and their designees to take any and all necessary actions to execute documents for the sale and issuance of the bond anticipation notes and the revenue bonds.

Approval of the financing resolutions for the projects as described in this Agenda Item 1 of the Committee on Finance at the May 19-20, 2015, meeting of the CSU Board of Trustees is recommended for:

### **San Francisco State University Mashouf Wellness Center Project**

### **San Diego State University Research Foundation – Engineering and Interdisciplinary Sciences Complex Project**

## **COMMITTEE ON FINANCE**

### **Approval to Extend the Bond Anticipation Note and Bond Sale Dates for an Auxiliary Project at California State University, Fullerton**

#### **Presentation By**

Robert Eaton  
Assistant Vice Chancellor  
Financing, Treasury, and Risk Management

#### **Background and Summary**

Generally, when the California State University Board of Trustees authorizes the issuance of Systemwide Revenue Bonds and the issuance of Bond Anticipation Notes (BANs) for interim financing under the CSU's commercial paper (CP) program, it does so with a three year time limit on the authorization to sell bonds. This three year period provides sufficient flexibility in the timing of a bond sale to take advantage of market conditions, while allowing projects to remain in CP until the sale of bonds.

This agenda item requests board approval to amend the resolutions authorizing the sale of BANs and bonds for an auxiliary project at the CSU Fullerton campus previously authorized by the board in an aggregate not-to-exceed amount of \$14,005,000. The amendment will extend the dates by which BANs and bonds are to be sold. The project is as follows:

#### **California State University Fullerton Auxiliary Services Corporation—Western State University College of Law Acquisition Project**

At its September 2012 meeting, the Board of Trustees approved the issuance of BANs and bonds in a not-to-exceed amount of \$14,005,000 for the CSU Fullerton Auxiliary Services Corporation (the "Corporation"), an auxiliary organization, to purchase real property adjacent to the campus to be used for campus academic purposes. The facility is commonly known as Western State University College of Law (the "Project"). Financing for the Project was originally approved with the expectation that the Project would be sold by the seller, Education Management Corporation (EDMC), to the Corporation, which would in turn lease the Project back to EDMC for a term up to three years. This sale-leaseback arrangement enabled EDMC to continue current law school operations while providing EDMC with time to find a suitable replacement site. Because EDMC would be occupying the Project for up to an additional three years, the Project has remained in CP and has not yet been financed on a long term basis in order to preserve the ability to finance the project with tax-exempt bonds.

The current lease is scheduled to expire August 29, 2015. EDMC has requested an extension of the lease, because it has been unable to find a suitable replacement site. Given that the campus is eager to move campus operations into the Project site, an agreement with EDMC has been reached for EDMC to lease space at an alternative site owned by the Corporation. The agreement for the leasing of space at this alternative site is scheduled to be finalized in May 2015, with EDMC expected to remain in the Project site through January 2016.

The Project will remain in CP through that period and likely beyond, until the next bond sale. The current financing authorizations for CP and BANs expire on September 1, 2015. Staff has been advised by bond counsel to obtain the board's approval to extend the financing authorizations to September 1, 2018.

### **Trustee Resolutions and Recommended Action**

Orrick, Herrington & Sutcliffe LLP, as bond counsel, is preparing a resolution to be presented at this meeting for the project described in this agenda item that amends the board's previous authorizations for interim and permanent financing. The proposed resolution will be distributed at the meeting and will achieve the following:

1. Amend previous authorizations for the sale and issuance of Systemwide Revenue Bond Anticipation Notes and the related sale and issuance of the Trustees of the California State University Systemwide Revenue Bonds in an amount not-to-exceed \$14,005,000 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 assistant vice chancellor, Financing, Treasury, and Risk Management; and their designees to take any and all necessary actions to execute documents for the sale and issuance of the bond anticipation notes and the revenue bonds.

Approval of the financing resolutions for the project as described in this Agenda Item 2 of the Committee on Finance at the May 19-20, 2015, meeting of the CSU Board of Trustees is recommended for:

**California State University Fullerton Auxiliary Services Corporation—Western State University College of Law Acquisition Project**



**COMMITTEE ON FINANCE****Report on the 2015-2016 Support Budget****Presentation By**

Ryan Storm  
Assistant Vice Chancellor  
Budget

**Background**

The California State University Board of Trustees approved the 2015-2016 Support Budget request at its November 2014 meeting. That budget request called for an increase of \$269 million, including \$216.6 million from state funds and \$52.4 million of net student tuition revenues tied to funded enrollment increases. The approved uses of the increase are as follows.

2% Compensation Pool Increase	\$65.5 million
3% Enrollment Demand (10,400 FTES)	103.2 million
Student Success and Completion Initiatives	38.0 million
Academic Facilities Maintenance & Infrastructure Needs	25.0 million
Information Technology Infrastructure Upgrade & Renewal	14.0 million
Mandatory Costs	23.1 million
Center for California Studies—Cost Increases	0.2 million
<b>TOTAL REQUEST</b>	<b>269.0 million</b>

Governor Brown issued his 2015-2016 budget proposal in January 2015. The most significant components of this proposal are: (1) an increase of \$119.5 million that could be used for operating and capital needs of the CSU and (2) a one-time appropriation of \$25 million to address the CSU's most pressing deferred maintenance infrastructure needs. The former component is consistent with the governor's multi-year plan to increase funding for higher education (now in its third of four years).

The discussions on the governor's proposal during the January 2015 CSU Board of Trustees meetings provided the Chancellor's Office important feedback that has helped frame additional budget discussions with the Department of Finance and the legislature. As a result, the Chancellor's Office has implemented an active strategy to obtain \$97.1 million more from the state than proposed by the governor's budget proposal. That amount of funding will bridge the gap between the trustees' general fund request (\$216.6 million) and the governor's January proposal (\$119.5 million).

The development of the 2015-2016 state budget began in summer of 2014 and the state is two months away from completing that budget. Below is what remains:

1. The Department of Finance will release its May Revision on May 14, 2015, which will provide updated revenue estimates for the upcoming fiscal year and will propose how to spend those revenues.
2. The Assembly and Senate will independently hold their post-May Revision budget hearings and will make final decisions on the governor's and their own budget proposals.
3. The houses will hold budget hearings to reconcile differences between their budget plans to create a single budget plan.
4. The legislature will vote on a final state budget in the middle of June.
5. The governor may veto portions of the budget and approve the remainder by June 30.

### **Legislative Hearings**

The budget subcommittees for education finance in the Assembly and the Senate have held several hearings this spring on the governor's higher education budget proposals as well as issues of particular interest to them. So far, they have focused more on policy changes contained in proposed budget bill or budget trailer bill language than on the proposed appropriation amounts. They have given particular attention to the need for new student access, improved access and completion for current students at the CSU, Graduation Initiative 2025, one-time innovation awards for CSU, one-time deferred maintenance for CSU, and CSU's legislative proposal for broader latitude in the types of investments the CSU may choose when investing its funds.

Neither house has made final decisions on any policy or budget proposals.

### **Possible State Budget Scenarios**

In early April 2015, the Legislative Analyst's Office released a report on five possible May Revision scenarios. In the report, the LAO explained that if state revenue collections in the current year outpace earlier estimates, it is likely under several scenarios that Proposition 98 (K-12 schools and community colleges) and Proposition 2 (rainy day fund) obligations would consume the current year revenues and create new, higher Proposition 98 spending levels in the budget year. Holding other factors constant, the analysis concludes that increases to other discretionary General Fund expenditures proposed in the governor's January proposal (e.g. CSU, UC, etc.) may have to be trimmed in 2015-2016 to accommodate K-12 schools and community colleges spending. That said, the governor and the legislature have several statutory and budgetary tools that they could use to avoid such scenarios.

## **May Revision**

To date, the legislative budget subcommittees have refrained from taking action on appropriation amounts for the CSU and the other higher education segments based on an expectation that the Governor's May Revision will identify a substantially altered state revenue picture for 2015-2016. Based on total tax collections through the month of April 2015, the Legislative Analyst's Office reports that the state may end 2014-2015 with \$3.2 billion above the January budget forecast. At the time this agenda item was prepared, however, major uncertainties still existed, including:

- Forecast economic growth and estimated revenues for the 2015-2016 fiscal year.
- The extent to which the state's constitutional spending guarantee for K-12 schools and community colleges (Proposition 98) would claim additional state revenues.
- The extent to which state populations and caseloads will change in the corrections and rehabilitation, health, and social service program areas.

## **Final CSU Budget Decisions are Dependent on Final State Decisions**

With final state budget decisions still to be determined, there will not be enough information to determine a final budget for the CSU at the May 2015 meeting. The governor's funding plan is significantly less than the trustees' budget request. The state's coffers may have positive revenues and there has been significant interest by the legislature to reinvest in the CSU after many years of significant funding reductions and small investments. The legislature may augment the CSU budget. As a result, the Chancellor's Office will await final state decisions, likely to occur by June 30, 2015 before finalizing the CSU budget, pursuant to resolution RFIN 11-14-05, passed in November 2014, which authorizes the chancellor to adjust and amend the support budget to reflect changes in the assumptions upon which the budget is based.

## **Summary**

At the May 19-20, 2015 meeting, the board will receive a full update on the May Revision and any changes affecting the CSU budget.

## **COMMITTEE ON FINANCE**

### **California State University Auxiliary Organizations**

#### **Presentation By**

Steve Relyea  
Executive Vice Chancellor and  
Chief Financial Officer

#### **Summary**

California State University (CSU) auxiliary organizations are separate legal entities created to support the educational mission of the university. Auxiliary organizations help ensure student success and the financial strength of the university by providing essential services and activities, increasing student engagement in high impact practices, managing risk and exposure, increasing investment opportunities, and facilitating real estate transactions. Auxiliary organizations include associated student organizations, student unions and recreation facilities, enterprise corporations that run bookstores and food services, and foundations that manage contracts and grants or gifts.

Auxiliaries are authorized under the provisions of Title 5 of the Education Code, the Internal Revenue Code, and the California Corporations Code as 501(c)(3) nonprofit organizations and 509(a)(3) supporting organizations, operating as “public charities” for tax exempt purposes. They are subject to CSU and campus policies with university leadership typically serving on the governing boards. Annual budgets are approved by the university president. They must be fiscally viable with adequate reserves as they do not receive CSU operating funds.

Approved activities of auxiliary organizations are contained within operating agreements with the CSU. The scope of operations and other matters are covered by a memorandum of understanding with the campus. Auxiliary organizations are required to produce independently audited financial statements, file annual tax returns, and follow either Financial Accounting Standards Board (FASB) or Government Accounting Standards Board (GASB) guidelines. The Office of Audit and Advisory Services at the Chancellor’s Office also performs an internal compliance/control review of each auxiliary organization every three years, per board policy.