

AGENDA

COMMITTEE ON FINANCE

Meeting: 10:25 a.m., Tuesday, July 19, 2016
Glenn S. Dumke Auditorium

Peter J. Taylor, Chair
Debra S. Farar, Vice Chair
Jane W. Carney
Adam Day
Jean P. Firstenberg
Lupe C. Garcia
Hugo N. Morales
John Nilon
Lateefah Simon

Consent Items

Approval of Minutes of the Meeting of March 8, 2016 and May 24, 2016

1. Approval to Issue Trustees of the California State University Systemwide Revenue Bonds and Related Debt Instruments for Projects at California State Polytechnic University, Pomona; California State University, San Bernardino; San Diego State University; and California State University, Monterey Bay, *Action*

Discussion Items

2. Conceptual Approval of a Public-Private Partnership to Develop a Sports Complex Project at California State University, Monterey Bay, *Action*
3. Report on Banking and Investments at the California State University, *Information*
4. Report on the 2016-2017 Support Budget, *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 8, 2016

Members Present

Adam Day, Chair
Peter J. Taylor, Vice Chair
Silas H. Abrego
Kelsey Brewer
Rebecca D. Eisen
Douglas Faigin
Debra S. Farar
Margaret Fortune
Lupe Garcia
Lillian Kimbell
Timothy P. White, Chancellor
Lou Monville, Chair of the Board

Trustee Adam Day called the meeting to order.

Public Comments

There were five public speakers. Gloria Juarez, a member of Students for a Quality Education, expressed support for faculty raises and free public college education; CSU Long Beach student Courtney Yamagiwa read a list of student demands related to affordability, availability of financial aid, faculty raises, diversity of faculty, and promotion of ethnic studies and arts; Molly Talcott, CFA Secretary, expressed support for free, quality higher education; Cecil Canton, CFA Associate Vice President, Affirmative Action, expressed concern for number of tenure-track faculty hires and increasing tuition; and Jennifer Eagan, CFA President, expressed concern on suppression of free speech and assembly and the use of non-union services, vendors, and contractors.

Approval of Minutes

The minutes of the January 26, 2016 meeting were approved as submitted.

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

Trustee Day presented agenda item 2 as a consent action item. The committee recommended approval of the proposed resolution (**RFIN 03-16-01**).

Conceptual Approval of a Public-Private Partnership Mixed Use Development Project at California State University, Fullerton

Mr. Steve Relyea, Executive Vice Chancellor and Chief Financial Officer, introduced the item and described some of the benefits of using public-private partnerships.

President Mildred Garcia presented the public-private partnership plan for the College Park South Development, a mixed-use project on auxiliary-owned property adjacent to the California State University, Fullerton campus and requested approval to proceed with the concept development of the project. Mr. Robert Eaton, Assistant Vice Chancellor for Financing, Treasury, and Risk Management, provided details on the development site and funding.

In response to Trustee Lupe Garcia, Mr. Eaton confirmed that key terms of the project, including contractual terms, will be presented to the board at a later date for final approval.

Trustee Faigin requested clarification on funding for the project. Mr. Eaton stated that all of the costs of financing and construction are born by the developer. Both Trustee Faigin and Trustee Day complimented President Garcia on the innovative approach of this proposed development.

Trustee Day requested confirmation that the developer of the project will be selected through a public competitive bid process and inquired on who owns the land. Mr. Eaton confirmed that there will be a competitive process and that the property is owned by the auxiliary.

The committee recommended Conceptual Approval of Public/Private Partnership Mixed Use Development Project at California State University, Fullerton (**RFIN-03-16-02**).

Conceptual Approval of a Public-Private Partnership Faculty/Staff Housing Development Project at California Polytechnic State University, San Luis Obispo

President Jeffrey Armstrong described the proposed plan for a privately financed, constructed, and maintained housing project at Cal Poly San Luis Obispo and requested approval to proceed with concept development. Mr. Eaton provided additional information on the project site, location, lease terms, and funding.

Trustee Hugo Morales commended President Armstrong for reaching out to the community regarding the project. President Armstrong noted that the project has strong support from the majority of City Council members.

Trustee Peter Taylor shared his support for workforce housing and inquired about the project's proposed timeline. Mr. Dru Zachmeyer, Assistant Vice President of Strategic Business Support Services at Cal Poly San Luis Obispo stated that if approved, the RFP/RFQs will be issued at the end of March 2016, with an anticipated project completion of 2019.

Trustee Lateefah Simon inquired about the affordability of the rental units. Mr. Zachmeyer reiterated that rates will be market-driven and the project provides a rental apartments designed for faculty and staff that do not currently exist today.

The committee recommended Conceptual Approval of Public/Private Partnership Faculty/Staff Housing Development Project at California Polytechnic State University, San Luis Obispo **(RFIN-03-16-03)**.

Conceptual Approval of a Public-Private Partnership for the Junior Giants Urban Youth Academy at San Francisco State University

President Les Wong presented a proposal for San Francisco State University to partner with the San Francisco Giants Community Fund and Major League Baseball to establish the Junior Giants Urban Youth Academy on the San Francisco State campus. Mr. Robert Eaton provided additional information on the project and outlined additional information San Francisco State will provide to the Chancellor's Office.

Trustee Day thanked President Wong for the creativity and innovation of this project and for serving the needs of the community.

Trustee Garcia requested further clarification on costs incurred by the campus. Mr. Eaton responded that the campus will incur upfront and on-going costs for maintenance and utilities, but the campus will be reimbursed for those costs from the rent collected through the agreements with the San Francisco Giants Community Funds.

The committee recommended Conceptual Approval of a Public-Private Partnership for the Junior Giants Urban Youth Academy at San Francisco State University **(RFIN-03-16-04)**.

Approval to Issue Trustees of the California State University Systemwide Revenue Bonds and Related Debt Instruments to Refinance and Restructure State Public Works Board Debt

Mr. Eaton summarized the basic goal of refinancing and restructuring the CSU's State Public Works Board bond debt with the CSU Systemwide Revenue Bond debt.

Trustee Day commented that this is a complex item and commended the staff on their proposal to capture \$200M to \$350M in cash flow savings over a ten-year period which would be used to fund capital projects and critical deferred maintenance on all the campuses.

In response to Trustee Faigin's request for further clarification about the payment of fees to issue the new bonds, Trustee Taylor explained that the CSU will be issuing new debt to replace existing

debt and Mr. Robert Eaton confirmed that all the upfront transaction fees have been factored in the savings projections. Trustee Lillian Kimbell requested clarification about higher debt service payments in the later years and Mr. Eaton confirmed that the trade-off of extending the debt is the immediate benefit in the near term of the \$200M to \$350M in cash flow savings over ten years.

Trustee Garcia inquired if the use of cash flow savings is restricted to deferred maintenance. Mr. Relyea responded that the savings are not restricted to deferred maintenance.

The committee recommended Approval to Issue Trustees of the California State University Systemwide Revenue Bonds and Related Debt Instruments to Refinance and Restructure State Public Works Board Debt (**RFIN-03-16-05**).

Update on the Sustainable Financial Model Task Force Report

Executive Vice Chancellor Relyea presented the next steps necessary to implement the various proposals in the Sustainable Financial Task Force Report. He thanked task force members for their significant contributions.

Trustee Day complimented Mr. Relyea for his approach in raising these complicated and controversial issues that need to be addressed.

Trustee Garcia inquired about the ability to provide financial aid to students on a year-round basis and asked that this availability be a factor in evaluating and assessing the CSU's ability to offer year-round classes. Mr. Relyea stated that much of the infrastructure already exists on the campuses to operate on a year-round basis, but incremental funding from the state is still needed to adequately fund financial aid and salaries for faculty and staff for such operations. President Leroy Morishita affirmed that the report recommends extending financial aid to the full year under state-supported summer session.

Trustee Garcia asked about the costs associated with improving administrative systems over a five year period. Mr. Relyea responded that the investment costs for these enhancements will depend on the size and complexity of the systems.

Trustee Taylor appreciated the timelines and milestones that were provided in the update and requested that a copy of the presentation be sent to the board. He also inquired about setting discretionary parameters for the State University Grant as part of the budget allocation process, to which Chancellor Timothy White responded that more modeling and quantitative analysis still needs to be done in this area.

Chair Lou Monville suggested that CSU continue to support strategic procurement. He also suggested that in the future the trustees may want to consider student facilities fees. Chair Monville reminded the board that, in some cases the CSU will need to work with the state legislature prior to being able to implement some task force recommendations.

Trustee Day adjourned the meeting on Finance Committee.

**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**

May 24, 2016

Members Present

Adam Day, Chair
Silas H. Abrego
Kelsey Brewer
Rebecca D. Eisen
Douglas Faigin
Debra S. Farar
Lupe Garcia
Lillian Kimbell
Lou Monville, Chair of the Board
Timothy P. White, Chancellor

Trustee Adam Day called the meeting to order.

Public Comments

There were no public speakers.

Final Approval of the California State University Channel Islands Site Authority Apartment Sales Project, *Action*

Mr. Steve Relyea, Executive Vice Chancellor and Chief Financial Officer, introduced the item. President Richard Rush provided an update on the “CI 2025 Vision Plan” and how this transaction will support the university’s mission and growth, and improve the campus’ and the Channel Islands Site Authority’s financial positions. Mr. Robert Eaton, Assistant Vice Chancellor for Financing, Treasury, and Risk Management provided key details of the transaction.

Trustee Douglas Faigin commended the campus for bringing to the board a project that makes maximum use of existing resources and requires no additional funding. Chair Adam Day congratulated the campus on the creativity and ingenuity in packaging this transaction so proceeds go back to fund educational services on campus.

The committee recommended Final Approval of California State University Channel Islands Site Authority Apartment Sales Project (RFIN 05-16-06).

Conceptual Approval of a Public/Public Partnership with The Panetta Institute for Public Policy at California State University, Monterey Bay, *Action*

President Eduardo Ochoa presented a plan for a new, privately funded, building to be built on the CSU Monterey Bay campus. The new building will allow the Panetta Institute for Public Policy to expanded programs and achieve greater local, statewide, national and global impact. California State Student Association president and California State University, Chico student, Ms. Taylor Herren shared her experience at the Panetta Institute. Mr. Eaton provided details of the public/public partnership.

Chair Lou Monville thanked the staff for the presentation and President Ochoa for the campus' continued support of the Panetta Institute.

The committee recommended Conceptual Approval of a Public/Public Partnership with The Panetta Institute for Public Policy at California State University, Monterey Bay (RFIN 05-16-07).

Report on the 2016-2017 Support Budget, *Information*

Mr. Ryan Storm, Assistant Vice Chancellor for Budget, provided a summary of the Governor's January and May revision proposals, reviewed the CSU support budget, and outlined next steps of the state and CSU budget cycle.

Trustee Rebecca D. Eisen requested information on the four-year integrated teacher credential program and the Educational Insights Center housed on the California State University, Sacramento campus. Dr. Loren Blanchard, Executive Vice Chancellor for Academic and Student Affairs, provided more insight on the integrated teacher credential program proposal and President Robert Nelsen provided more information on the Education Insights Center. Trustee Lupe Garcia requested clarification on the allocations tied to these two programs. Mr. Storm explained that \$10 million would be made available statewide and public and private institutions with teaching credential programs could apply for one-time grant funding and the Education Insights allocation would be an ongoing appropriation of \$1.1 million for operations.

Trustee Douglas Faigin and Trustee Eisen requested clarification on the one-time \$25 million allocation that would be contingent on plan by the Board to improve two-year and four year graduation goals. Mr. Storm commented that the Board would need to adopt a plan that is suitable to the Department of Finance by the September board meeting and that initial discussions with the Department of Finance have begun on goal setting and identifying comparison institutions.

Trustee Garcia stated that the board should aspire to do more and asked that the membership of the to-be-established advisory group represent diversity of thought and membership.

Trustee Day adjourned the meeting on Finance Committee.

COMMITTEE ON FINANCE

Approval to Issue Trustees of the California State University Systemwide Revenue Bonds and Related Debt Instruments for Projects at California State Polytechnic University, Pomona; California State University, San Bernardino; San Diego State University; and California State University, Monterey Bay

Presentation By

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

Summary

This item requests the California State University Board of Trustees to authorize the issuance of long term Systemwide Revenue Bond (SRB) financing and the issuance of bond anticipation notes (BANs) to support interim financing under the commercial paper (CP) program in an aggregate amount not-to-exceed \$196,330,000 to provide financing for four campus projects:

1. California State Polytechnic University, Pomona – Parking Lot C Reconfiguration
2. California State University, San Bernardino – Student Housing and Dining Commons
3. San Diego State University – Tenochca Hall Tower Deferred Maintenance and Infrastructure Replacement
4. California State University, Monterey Bay – University Corporation at Monterey Bay Promontory Student Housing Acquisition

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.

Background

The Systemwide Revenue Bond program provides capital financing for projects of the CSU – student housing, parking, student union, health center, continuing education facilities, certain auxiliary projects, and other projects, including academic facilities, approved by the CSU Board of Trustees. Revenues from these programs and revenues approved by the board, including CSU operating funds, are used to meet operational requirements for the projects and 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 BANs

issued by the CSU in support of its 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.

1. California State Polytechnic University, Pomona Parking Lot C Reconfiguration

The California State Polytechnic University, Pomona Parking Lot C Reconfiguration project was approved by the board for amendment of the Non-State Capital Outlay program in March 2016. Schematic design has been approved under delegated authority to the chancellor. After the reconfiguration, the project will provide 250 parking spaces to visitors, faculty, and staff near the administration replacement building, and will address safety and other site improvements.

The not-to-exceed par amount of the proposed bonds is \$4,075,000 and is based on a total budget of \$3,827,000. Additional net financing costs, such as capitalized interest and cost of issuance (estimated at \$248,000), are expected to be funded from bond proceeds. The project is scheduled to start construction in January 2018 with completion expected in September 2018 in coordination with the administration replacement building to start summer 2016.

The following table summarizes key information about this financing transaction.

Not-to-exceed amount	\$4,075,000
Amortization	Approximately level over 25 years
Projected maximum annual debt service	\$ 288,126
Projected debt service coverage including the new project:	
Net revenue – Pomona pledged revenue programs: ¹	1.62
Net revenue – Projected for the campus parking program: ¹	1.27

1. Based on campus projections of 2019-2020 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 5.18 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 parking program net revenue debt service coverage of 1.27 in 2019-2020, 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 1.62, which exceeds the CSU benchmark of 1.35 for a campus.

2. California State University, San Bernardino Student Housing and Dining Commons

The California State University, San Bernardino housing and dining commons project was approved by the board for amendment of the Non-State Capital Outlay program and schematics in November 2015. The freshmen housing complex will consist of two four-story residence hall buildings (totaling approximately 114,000 gross square feet) with a design for double occupancy for 416 beds. The dining commons (approximately 50,000 gross square feet) will have both self-service and full-service food stations as well as three dining rooms providing 650 seats in the interior dining area and a 50-seat mezzanine. The campus received a positive recommendation for the project from the Housing Proposal Review Committee in June 2015.

The not-to-exceed par amount of the proposed bonds is \$104,400,000 and is based on a total budget of \$93,962,000 with a housing reserve contribution of \$3,500,000. Additional net financing costs, such as capitalized interest and cost of issuance (estimated at \$13,938,000), are expected to be funded from bond proceeds. The project is scheduled to start construction in August 2016 with completion expected in July 2018.

The following table summarizes key information about this financing transaction.

Not-to-exceed amount	\$104,400,000
Amortization	Approximately level over 30 years
Projected maximum annual debt service	\$ 7,021,581
Projected debt service coverage including the new project:	
Net revenue – San Bernardino pledged revenue programs: ¹	1.38
Net revenue – Projected for the campus housing program: ¹	1.13

1. Based on campus projections of 2019-2020 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 5.50 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 housing program net revenue debt service coverage of 1.13 in 2019-2020, 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 1.38, which exceeds the CSU benchmark of 1.35 for a campus.

3. San Diego State University Tenochca Hall Tower Deferred Maintenance and Infrastructure Replacement

San Diego State University seeks Board of Trustees financing approval to address deferred maintenance and infrastructure needs at the Tenochca Hall Tower, a 392 bed student housing facility. The project calls for replacing deteriorated HVAC and electrical equipment, building finishings, and decayed framing. The project has been approved by the campus president under delegated authority.

The not-to-exceed par amount of the proposed bonds is \$15,475,000 and is based on a total budget of \$15,800,000 with a housing program reserve contribution of \$1 million. Additional net financing costs, such as capitalized interest and cost of issuance (estimated at \$675,000), are expected to be funded from bond proceeds. The project is scheduled to start construction in November 2016 with completion expected in May 2017.

The following table summarizes key information about this financing transaction.

Not-to-exceed amount	\$15,475,000
Amortization	Approximately level over 30 years
Projected maximum annual debt service	\$ 1,005,730
Projected debt service coverage including the new project:	
Net revenue – San Diego pledged revenue programs: ¹	1.63
Net revenue – Projected for the campus housing program: ¹	1.50

1. Based on campus projections of 2017-2018 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 5.23 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 housing program net revenue debt service coverage of 1.50 for 2017-2018, 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 1.63, which exceeds the CSU benchmark of 1.35 for a campus.

**4. California State University, Monterey Bay,
University Corporation at Monterey Bay—Promontory Student Housing Acquisition**

University Corporation at Monterey Bay (the “Corporation”), a recognized auxiliary organization in good standing at California State University, Monterey Bay, is seeking approval to finance the purchase of a privately owned student housing project on 8.27-acres of land adjacent to the campus commonly known as the Promontory Student Housing (the “Project”).

The Project is a 274,000-square foot student housing complex consisting of three four-story buildings with a total of 174 apartment units, each having from 1-4 bedrooms, for a total of 569 beds, which can be increased to 789 beds if the larger bedrooms are reconfigured for double occupancy. Each bedroom has its own full bathroom. Every apartment has a full kitchen, living room, and washer and dryer. The center building has additional amenities that include offices, a media/meeting room, game room, study rooms, a “cyber café” for events, and a full fitness center. Each building has an open courtyard in the center which promotes collaboration and a sense of community. There are barbeques on the grounds as well as a basketball half court. The property was built in 2015 and was appraised at a fair market value of \$68,550,000 as of November 11, 2013.

On December 30, 2015, the Corporation entered into a master lease agreement with the owner of the Project to lease the facility for use at an annual lease rate of \$5 million. The Corporation and the campus began housing students at the facility in the fall of 2015, as part of the campus’ overall housing program. Concurrent with the master lease agreement, both parties also entered into an option agreement, which provides the Corporation with the option to purchase the facility at a price of \$68,550,000 beginning August 1, 2016. Upon financing approval and appropriate due diligence by campus and Chancellor’s Office staff, the Corporation and the campus wish to exercise the purchase option and close escrow on the Project in time for the fall 2016 term. On June 24, 2016 the Corporation’s board of directors adopted a resolution authorizing the acquisition and financing of the Project through the SRB program.

The bonds will be issued on a tax-exempt basis at a not-to-exceed par amount of \$72,380,000 to fund the Project’s purchase price of \$68,550,000 and additional net financing costs such as capitalized interest and cost of issuance, estimated at \$3,830,000. The bonds will be amortized on a level debt service schedule over 30 years, with maximum annual debt service of \$4,695,650. The bonds will be secured by a general obligation pledge of the Corporation’s unrestricted revenues, including housing revenues generated by the Project.

The following table summarizes key information about this financing transaction.

Not-to-exceed amount	\$72,380,000
Amortization	Approximately level over 30 years
Projected maximum annual debt service	\$ 4,695,650
Projected debt service coverage including the new project:	
Net revenue – Monterey Bay pledged revenue programs: ¹	1.96
Net revenue –Corporation’s overall operations: ¹	1.85

1. Based on campus projections of 2017-2018 operations of the project with full debt service.

The not-to-exceed amount and debt service on the bonds is based on an all-in interest cost of 5.23 percent, reflective of adjusted market conditions plus 1.00 percent as a cushion to account for any market fluctuations that could occur before the permanent financing bonds are sold. Based on the financial plan, in 2017-2018, the first full year of debt service repayment for the Project, the debt service coverage for the Project is 1.13 (rising to 1.26 by 2019-2020) and the Corporation’s overall debt service coverage is 1.85, compared with the CSU benchmark of 1.25 for both the project and auxiliary debt program. When combining the Project with 2014-2015 information for all campus pledged revenue programs and the campus’ existing auxiliary debt program, the campus’ overall debt service coverage is projected at 1.96 in 2017-2018, which exceeds the CSU benchmark of 1.35.

Trustee Resolutions and Recommendation

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 \$196,330,000 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 1 of the Committee on Finance at the July 19, 2016, meeting of the CSU Board of Trustees is recommended for:

California State Polytechnic University, Pomona Parking Lot C Reconfiguration

California State University, San Bernardino Student Housing and Dining Commons

San Diego State University Tenochca Hall Tower Deferred Maintenance and Infrastructure Replacement

**California State University, Monterey Bay
University Corporation at Monterey Bay—Promontory Student Housing Acquisition**

COMMITTEE ON FINANCE

Conceptual Approval of a Public-Private Partnership to Develop a Sports Complex Project at California State University, Monterey Bay

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

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

Eduardo Ochoa
President
California State University, Monterey Bay

Summary

This item requests conceptual approval from the California State University Board of Trustees for a public-private partnership to develop a sports complex project on the California State University, Monterey Bay campus.

Background

In late 2015, the Monterey Bay campus was approached by a development team led by BSIX CORP (B6) with a concept to develop a sports complex project on the campus. B6 was founded in 2007 and its development team partners have experience in the development and management of a variety of real estate development projects including development and operation of sports and entertainment projects. In early 2016, the campus issued a public request for proposals to develop a sports complex on the campus and the B6 development team was the only proposal received by the campus.

This conceptual approval will allow the campus and Chancellor's Office staff to continue discussions with the B6 development team. However, although the B6 development team has experience with the development and operation of sports and entertainment projects, given the proposed scale and complexity of the project, this conceptual approval will also allow the campus and Chancellor's Office staff to retain the option of soliciting proposals again and possibly entering into discussions with other development teams if needed.

Project Description

The project involves the construction of a new sports complex on approximately 100 acres of campus land designated for athletics and recreational uses. The project will be designed to attract a wide variety of sporting and entertainment events from the region, as well as provide the campus with athletic and recreational facilities. The project will cost an estimated \$173 million; however, final project costs and date of completion have not been determined. The project will include outdoor athletic fields, covered multipurpose athletic fields constructed to NCAA Division II standards, concessions, spectator seating and facilities, aquatics, and support facilities. In addition, the project will include classroom and conference spaces, as well as office and administrative space necessary to operate and staff the facility.

The campus is expected to enter into a long-term market rate ground lease with a developer, either the B6 development team or another development, for a term of not less than 40 years. The project will revert to the CSU upon expiration or termination of the ground lease.

Financing

Neither the campus nor any auxiliary will have an investment in the project. The developer will be responsible for all financing, planning, design, construction, maintenance, custodial, and management costs of the project during the term of the lease. The developer will also be responsible for all costs associated with environmental and entitlement processes in accordance with CSU requirements. All costs associated with design and permits for the project will be the responsibility of the developer. Furthermore, all costs incurred by the campus, including amendment and adoption of its master plan, reimbursement for time and materials during the development of the project, and other similar costs are to be borne by the developer.

Educational Benefits

The project will allow the campus to expand its athletics programming while addressing the poor conditions of existing facilities. The new facilities would also help attract, recruit, and retain higher profile student athletes to the campus intercollegiate programs. In addition, the campus will enjoy expanded facilities for intramural and club sports, as well as many recreational opportunities for the entire student body. The expanded programming will provide opportunities for academic collaboration particularly in Kinesiology and Business and also allow for internships and student employment. Furthermore, the campus has multiple community partners who visit and share athletic facilities at the campus, thus the project will enhance the relationships with the local community.

Approval of the Final Development Plan

Per board policy, as the project moves forward, all related master plan revisions, amendments of the capital outlay program, proposed schematic plans, financial plans, proposed key business points of the finalized development plan, and the required California Environmental Quality Act (CEQA) documents and relevant off-site environmental mitigation measures will be presented at future meetings for final approval by the Board of Trustees prior to execution of any commitments for development and use of the property.

Recommendation

The following resolution is presented for approval:

RESOLVED, by the Board of Trustees of the California State University, that the Trustees:

1. Approve the concept of a public-private partnership for the development of sports complex project at California State University, Monterey Bay;
2. Authorize the chancellor and the campus to enter into negotiations for agreements necessary to develop the final plan for the public-private partnership as explained in Agenda Item 2 of the July 19, 2016 meeting of the Committee on Finance;
3. Authorize the chancellor and the campus to enter into a due diligence access and option agreement which provides the developer with a limited-term option along with the responsibility for the development of a final plan, schematic drawings, and necessary environmental analyses during the option period;
4. Will consider the following additional action items relating to the final plan:
 - a. Certification of Final California Environmental Quality Act (CEQA) documentation;
 - b. Approval of a financial plan negotiated by the campus and the Developer with the advice of the chancellor;
 - c. Approval of any amendments to the campus master plan as they pertain to the project;
 - d. Approval of an amendment to the Non-State Capital Outlay Program;
 - e. Approval of the schematic design.

COMMITTEE ON FINANCE

Report on Banking and Investments at the California State University

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

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

Summary

This item provides information to the California State University Board of Trustees regarding banking operations at the California State University and the investment of CSU funds.

Background

As authorized by state law, the CSU collects revenue from a variety of sources, such as student tuition fees, housing and parking operations, extended education, and lottery funds. Each campus deposits these funds in bank accounts opened in the name of the Board of Trustees of the California State University. In effect, the CSU collects and holds all funds that it receives other than state general funds, which are held by the state for the benefit of the CSU. Funds held by the CSU are used to make payments to meet various needs.

State law authorizes the CSU to invest funds held in its own accounts that are not required for immediate needs. State law stipulates that CSU funds may only be invested in certain type of securities—generally fixed income securities such as United States Treasury instruments, securities of federal agencies such as “Fannie Mae” or “Freddie Mac” or U.S. corporate bonds.

Banking Operations at the California State University

Since 2006, all CSU bank accounts have been with a single bank, Wells Fargo Bank, NA, under a zero balance account structure. Under a zero balance account structure, all campus and Chancellor’s Office account balances are transferred out of each individual account every business day and rolled into a single, CSU systemwide master account held and managed at the Chancellor’s Office. Through this process, all balances from all accounts are netted against one another to generate one balance. If the balance in the master account is positive, those funds are sent for

investment. If the balance in the master account is negative due to the level of paper and electronic disbursements, funds are pulled from the investment portfolio to cover the balance and ensure that all disbursements are honored. For bank deposits, Well Fargo Bank, NA, is rated Aa1/AA-/AA+ from Moody's, Standard and Poor's, and Fitch, respectively.

There are a number of key benefits in having a zero balance account banking platform with a single bank.

Efficiency of Cash Management

Under a zero balance account structure, individual campuses do not need to leave balances in their bank accounts or pull funds from investment and lose investment earnings in order to cover outstanding checks that may clear on a given day. Instead, campuses are free to take in deposits and make disbursements from their accounts knowing that balances available for investment or that need to be covered by investment funds are monitored centrally by treasury operations at the Chancellor's Office. This process allows for a much more efficient use of funds, minimizing the amount of funds that are left in CSU accounts on a daily basis and maximizing the amount of funds that are invested and earning a return until needed for their designated purpose.

Reduction of Banking Fees and Enhancement of Banking Services

Having one bank provide banking services allows the CSU to negotiate one contract and take advantage of volume and economies of scale to drive down banking costs, enhance or add services, and negotiate more favorable terms.

Stronger Risk Control and Consistency in Reporting

Under a banking platform with a single bank partner, implementation of certain services and monitoring of treasury policy and procedures can be standardized and enhanced, thereby reducing the risk of fraud. In addition, while campuses have the authority and flexibility to delegate certain banking activities at their level, certain responsibilities and delegations are maintained centrally at the Chancellor's Office to reduce risk. Also, with a single bank, statements are standardized, enhancing the ability of the system to monitor banking activity, reconcile accounts, and create reports.

Investments at the California State University

CSU funds are invested through the CSU Systemwide Investment Fund-Trust (SWIFT) investment portfolio, which was established in July 2007 for the purpose of enhancing centralized cash and investment management. As noted above, on a daily basis, all net investable cash in the CSU system is moved into SWIFT for investment. All SWIFT cash and securities are held by US Bank, the custodian bank for SWIFT. For investment management purposes, all funds that are moved

into the SWIFT portfolio or pulled out of the SWIFT portfolio are divided equally between two investment management firms, US Bancorp Asset Management and Wells Fargo Asset Management. These two firms make investments in accordance with CSU investment policy and through regular communication with treasury operations staff, which monitors investment portfolio performance and compliance.

Centralizing investments in one systemwide portfolio provides the CSU with many of the same benefits that centralized banking provides—better ability to manage fees, ability to monitor compliance with investment policy, and enhanced and consistent reporting.

Update on Proposed California State University Investment Authority Legislation

As presented to the board over the last year and a half, staff has been working with key partners in the Assembly, the Senate, the Department of Finance, and the State Treasurer's Office to change the legislation that governs the CSU investments. Because fixed income securities have been generating low returns for the CSU over a number of years, the goal of the legislation is to provide the CSU with more investment options and to increase earnings on its existing base of funds. This potential for additional revenues would enhance the CSU's ability to address its deferred maintenance and critical infrastructure backlog.

Key components of the proposed legislation are as follows:

1. Expands the types of investments CSU can make to include mutual funds (including equity mutual funds) and real estate investment trusts.
2. Limits the amount of funds in the new investments and phases in such investment over a four-year period. The first year would be limited to \$200 million, year two would be limited to \$400 million, year three would be limited to \$600 million, and thereafter no more than 30% of the CSU's total investments could be invested in the new investment options.
3. Requires the board to establish an independent advisory committee to oversee investments. The committee would include a majority of members with investment expertise and who are not CSU employees. The State Treasurer would have the option to serve, or appoint a designee to serve, as a member of the committee.
4. Enhances quarterly and annual reporting to the board and includes an annual reporting requirement to the legislature that includes investment returns, comparisons to benchmarks, portfolio holdings, market values, and fees.
5. Restricts the use of earnings from the new investments to meet non-recurring capital needs, including deferred maintenance and critical infrastructure.
6. Prohibits the CSU from citing any losses associated with the new investments as justification for increases in student tuition or fees.
7. Prohibits the CSU from seeking State general fund dollars to offset any losses associated with the new investments.

The proposed legislation has received support from the State Treasurer, was approved by the Senate in May 2016, and is now pending review and possible approval by the Assembly.

Staff has already commenced work on implementing some of the provisions of the proposed legislation, notably the establishment of an investment advisory committee to the board and the reporting provisions. Establishment of such a committee and adoption of the new aspects of reporting will serve the CSU well with respect to the proposed new investment authority as well as with its existing investments.

With the possible legislative changes, staff will conduct a review of the CSU's investment policy and present appropriate amendments to the board for discussion and approval at a future meeting. Based upon any legislative and policy changes, staff would then work to restructure the CSU's investment portfolio to meet the CSU's needs.

COMMITTEE ON FINANCE

Report on the 2016-2017 Support Budget

Presentation By

Ryan Storm
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Budget

Summary

The purpose of this agenda item is to inform the California State University Board of Trustees of final budget-related decisions made by the state of California affecting the CSU support budget.

Background

At its November 2015 meeting, the Board of Trustees approved the CSU 2016-2017 Support Budget Request. That budget request called for an increase of \$297.6 million, including \$241.7 million from state funds and \$55.9 million of net student tuition revenue tied to funded enrollment growth. The approved budget priorities included funding for:

2% Compensation Pool Increase	\$69.6 million
3% Enrollment Demand (10,700 FTES)	110.0 million
Student Success and Completion Initiatives	50.0 million
Academic Facilities Maintenance & Infrastructure Needs	25.0 million
Mandatory Costs (health, retirement, new facilities maintenance)	43.0 million
TOTAL REQUEST	\$297.6 million

Consistent with the governor's multi-year funding plan, first proposed and adopted in 2013-2014, the governor's 2016-2017 January budget provided a \$140.4 million recurring state general fund increase for the CSU support budget. By the end of May 2016, the governor and legislature estimated slightly lower state revenues and re-prioritized funding augmentations for one-time uses. The governor proposed an additional \$25 million, one-time, for the CSU above his January 2016 budget commitment. The Senate proposal was not materially different from the governor's proposals, while the Assembly proposed an additional \$126 million of recurring funding for the CSU above the governor's January 2016 proposal.

The final budget agreement between the governor and legislature provided a slight increase of recurring funding above the governor's multi-year funding plan as well as a significant increase in one-time funding. Specifically, the final budget act provides an increase totaling \$154 million from the state general fund, raising state support for the CSU to \$3.2 billion. Additionally, the final budget act provides a total of \$87 million of one-time funding from the state general fund for a variety of purposes.

The state provided approximately 60 cents for every dollar requested by the Board of Trustees, which creates the need to further prioritize and re-size what were already reasonable and necessary new expenditure levels in the CSU support budget request.

Proposed Expenditure Plan

Mandatory Costs

Approximately \$43 million will be used to meet anticipated mandatory costs that the university must pay regardless of the level appropriated by the state. These costs include recent increases to employee benefits and operations and maintenance of newly-constructed space. Without funding for mandatory cost increases, campuses would have to redirect resources from other program areas to meet obligations. Funding mandatory costs helps preserve the integrity of CSU programs.

Funded Student Enrollment

Over 830,000 undergraduate applications were submitted to CSU campuses for Fall 2016, an increase of over 40,000, or nearly five percent, from the prior year. In spite of this, state budget cuts during the recession continue to have repercussions today that constrain the ability of the CSU to admit and enroll new eligible applicants.

The budget plan will allow growth in state-assisted enrollment in the CSU system by approximately 6,100 students (approximately 5,200 full-time equivalent students) during the 2016-2017 academic year. This is just under half of the support budget request for enrollment growth.

Employee Compensation Pool

The CSU 2016-2017 Support Budget Request proposed an employee compensation pool equivalent to two percent, however, there have been significant developments in this component of the support budget. The multi-year agreement with the California Faculty Association, resulting amendments to other bargaining unit agreements with "fairness clauses", and other represented and non-represented employee group cost considerations created new compensation

expenses equivalent to a five percent compensation pool totaling \$170.3 million for 2016-2017. These costs will be funded by permanent and one-time sources in 2016-2017 including: one percent from one-time funds already identified and set aside from 2015-2016 for faculty salaries, one percent from permanent funds first budgeted in 2015-2016 and already identified and set aside in the compensation pool for faculty salaries, two percent from recurring funds included in the 2016-2017 CSU Support Budget Request for the compensation pool, and one percent from funds that campuses are redirecting to compensation increases.

Student Success and Completion Initiatives/Graduation Initiative 2025

An allocation of \$10.2 million will be used to fund campus-specific strategies that improve student access and success such as reducing time to degree, closing the achievement gap, and improving graduation rates. Systemwide objectives will guide campus-level decisions about how this funding is used. Campuses will balance priorities that include: hiring more tenure-track faculty and staff; scaling up existing best practices; implementing new and innovative strategies to enhance academic advising; focusing on retention and reduced time to degree; and closing the achievement gap for underserved and under-prepared first-time freshmen. This is significantly less than the \$50 million contained in the support budget request, but is necessary in order to achieve our graduation initiative 2025 goals, and best serve our students.

Infrastructure Needs

There are numerous examples on every CSU campus of academic and plant facilities that are in need of repair or replacement. The systemwide deferred maintenance backlog cost is approximately \$2.6 billion and grows by approximately \$150 million per year. Due to the partial funding of the support budget in 2016-2017, the CSU will not dedicate new permanent funding for annual debt service on longer-term bond-financed projects, as had been possible during the past two fiscal years. Instead, the university will utilize \$35 million of one-time funding provided by the state to address the CSU's most urgent facility maintenance and infrastructure needs. Also, the CSU will look to other ways to fund its infrastructure needs and we will keep the Board informed on ways to do so.

Other State Budget Changes

Graduation Rate Goal-Setting

The state budget includes a one-time appropriation of \$35 million linked to a plan to be adopted by the board that increases two-year transfer and four-year first-time freshmen graduation rate goals at the systemwide and campus level. To receive these funds, two- and four-year graduation rate goals for all students, on average, would have to exceed rates of other postsecondary institutions. Also, two- and four-year graduation rate goals for low-income students,

underrepresented minority students, and first-generation college students would have to match the graduation rates of students not included in those groups. A systemwide advisory committee has been assembled to re-bench existing Graduation Initiative 2025 goals.

Education Insights Center

The state budget includes \$1.1 million of ongoing funding to the Education Insights Center. An enterprise entity funded by self-support resources and located on the Sacramento State campus. EdInsights would be tasked with creating the CSU Student Success Network, which will help explore new ways to improve outcomes for CSU students and spread effective practices more broadly across the system.

Summary

The governor signed the 2016-2017 budget act and the higher education budget trailer bill on June 27, 2016. In terms of appropriations for the CSU, the enacted budget is consistent with the Board of Trustees' 2016-2017 Support Budget Request. It provides a recurring programmatic increase of \$154 million from the state general fund as well as \$87 million of one-time funding for a variety of purposes, bringing state support for the CSU to \$3.2 billion out of a \$122 billion state general fund budget. This new funding will continue the process of reinvestment in the students, faculty, staff, and campuses of the CSU.