AGENDA

COMMITTEE ON FINANCE

Meeting: **1:00 p.m., Tuesday, March 8, 2016**
Glenn S. Dumke Auditorium

Adam Day, Chair
Peter J. Taylor, Vice Chair
Silas H. Abrego
Kelsey M. Brewer
Rebecca D. Eisen
Douglas Faigin
Debra S. Farar
Margaret Fortune
Lupe C. Garcia
Lillian Kimbell

Consent Items

Approval of Minutes of the Meeting of January 26, 2016

1. California State University Annual Debt Report, *Information*
2. 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, *Action*

Discussion Items

3. Conceptual Approval of a Public/Private Partnership Mixed-Use Development Project at California State University, Fullerton, *Action*
4. Conceptual Approval of a Public/Private Partnership Faculty Staff Housing Development Project at California Polytechnic State University, San Luis Obispo, *Action*
5. Conceptual Approval of a Public/Private Partnership Junior Giants Urban Youth Academy at San Francisco State University, *Action*
6. 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, *Action*
7. Update on the Sustainable Financial Model Task Force Report, *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

January 26, 2016

Members Present
Adam Day, Chair
Peter J. Taylor, Vice Chair
Silas H. Abrego
Kelsey M. Brewer
Rebecca D. Eisen
Douglas Faigin
Debra S. Farar
Margaret Fortune
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 six public speakers. Two members of the Students for a Quality Education, Christian Torres (CSU, Los Angeles) and Gloria Juarez (CSU, Dominguez Hills) expressed support for the California Faculty Association (CFA) and spoke against student fee increases; Cristina Railey, a CSU, Dominguez Hills student expressed concern with increasing student debt; CFA representatives Jennifer Eagen, Kevin Wehr, and Lillian Taiz expressed concerns with some recommendations of the draft report of the Task Force on a Sustainable Financial Model, including public-private partnerships because they felt it may compromise academic freedom.

Approval of Minutes

The minutes of the November 17, 2015 meeting were approved as submitted.

Sustainable Financial Model Task Force Draft Report, *Information*

Executive Vice Chancellor and Chief Financial Officer Steve Relyea, San Diego State University President Elliott Hirshman and CSU, East Bay President Leroy Morishita presented the draft report of the Task Force on a Sustainable Financial Model for the CSU.

Trustee Doug Faigin suggested one of the work groups explore what the CSU is spending versus what it needs. He expressed concern in making annual tuition increases automatic. Mr. Relyea added that any consideration of tuition increases would be brought before the board.

Trustee Peter Taylor spoke in favor of public-private partnerships noting that many campuses have student demand and available vacant land. Trustee Garcia agreed that public-private partnerships could be a good way to explore revenue generating projects and referred to Executive Order 747 to provide the board with direction on approving public-private partnerships.

Trustee Taylor requested further clarification on the admission redirection process and setting of non-resident tuition.

Trustees Silas Abrego and Margaret Fortune stated the CSU should explore alternative dedicated sources of revenue, similar to an oil severance tax.

Student Trustee Kelsey Brewer appreciated being included in the task force discussions and opined that the report is a good advocacy tool for the CSU in Sacramento. She added that changes to the State University Grant should focus on maintaining affordability and minimizing the impact on financially needy students.

Chair Lou Monville said that it would be helpful to have timelines for the recommendations. He requested that the work group on student access explore the use of online technology to alleviate bottlenecks and allow cross-campus learning. He also suggested including incentives for students to graduate within four years. In the area of use of facilities, he advised that campuses should make better use over the weekend to increase enrollment. He expressed interest in replacing the use of Integrated Postsecondary Education Data System (IPEDS) with something that better aligns with the nature of CSU. Trustee Monville suggested State University Grants be limited to undergraduates, since the core mission of the CSU is undergraduate education. He supported increased efforts in philanthropy but would like to have metrics. He expressed willingness to consider market based non-resident tuition for graduate students.

Trustee Day asked that specific examples on recommendations be shared with the board to better understand the problems and recommended solutions. He also requested that the appropriate work group conducts a super senior analysis to identify ways to increase capacity.

Report on 2016-2017 Support Budget, *Information*

Mr. Steve Relyea introduced the item and shared that recently the governor released his budget plan for the 2016-2017 fiscal year.

Mr. Ryan Storm, Assistant Vice Chancellor for Budget provided an update on the state's response to the support budget that the Board of Trustees approved last November. The governor proposed a $140.4 million state General Fund increase for the CSU which was consistent with the governor's multi-year funding plan for the CSU. This amount is approximately a four percent increase in general fund (or a two percent increase in total operating funds) and is $101.3 million short of the board-approved support budget request.

Mr. Storm added the governor proposed a one-time allocation of $35 million in cap and trade funding which campuses would use for energy efficiency and renewable energy projects, as well as a one-time allocation of $35 million for deferred maintenance projects. He noted that even with new one-time and ongoing funding dedicated to the CSU's capital program over the past few years, the deferred maintenance backlog remains at approximately $2 billion.

The Legislative Analyst's Office (LAO) will next analyze the governor's budget proposal in more detail and issue reports before the end of February. Like the governor's budget, the LAO's most likely state budget scenario for 2016-2017 calls for a multi-billion dollar revenue surplus that could be placed in reserve or spent on state programs, including the CSU.

Trustee Garcia inquired if there had been any feedback from Sacramento regarding to the Academic Sustainability Plan and if the feedback could be shared with the board. Mr. Storm responded that feedback had been received and Mr. Relyea stated that the feedback would be shared with the board when the next Academic Sustainability Plan is brought before the board.

Trustee Day stated that given our population of students, graduating in four years may not be realistic and he would not want the CSU to be penalized for not reaching a goal or target that is not achievable. He also emphasized the importance of continuing to tell the CSU's story to communicate why resources are good for CSU students and the economy.

2015-2016 Student Fee Report, *Information*

Mr. Ryan Storm summarized the annual report of campus-based mandatory fees by campus for the 2015-2016 academic year.

Mr. Storm shared that the Chancellor's Office developed a robust and informative website for Student Success Fee information. This website provides clear and timely information to students and their families as they financially plan for a CSU education. The website can be accessed through the www.calstate.edu homepage.

Trustee Faigin indicated he was involved in the Student Success Fee work group and congratulated the chancellor and staff on the website. He inquired if there was a way to publicize it for people to know that it is available. Mr. Storm responded that it is available on the CSU home page so it is one of the immediate things you see. Mr. Relyea added that also on this website are links to each comparable campus website.

Trustee Day adjourned the meeting on Finance Committee.

COMMITTEE ON FINANCE

California State University Annual Debt Report

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

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

Summary

This item reports on the debt of the California State University Systemwide Revenue Bond (SRB) program, issued in accordance with the CSU Policy on Financing Activities (RFIN/CPBG 11-14-01).

Background

The SRB program, under the provisions and authorities of The State University Revenue Bond Act of 1947 (Education Code Sections 90010-90083), was established by the CSU Board of Trustees at its March 2002 meeting. Since the inception of the SRB program, the CSU Policy on Financing Activities has set forth the principles that serve as the basis for the SRB program and has provided the chancellor with additional authority to establish procedures for the management of the SRB program consistent with the board's objectives for the use of debt. In turn, the chancellor has established these procedures through the issuance of executive orders. The current CSU Policy on Financing Activities (RFIN/CPBG 11-14-01), which was amended by the board in November 2014 in response to State legislation passed in June 2014 that affected the CSU's capital financing programs, is included herein as Attachment A. The current executive order governing the SRB program (Executive Order 994) is included herein as Attachment B. This executive order is under review and pending revisions in response to the same State legislation.

The SRB 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 board. 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. A 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.

SRB Portfolio Profile

As of June 30, 2015 and December 31, 2015, the outstanding SRB debt of the CSU was approximately $3,688,000,000 and approximately $4,355,000,000, respectively.

Key characteristics of the SRB portfolio are as follows:

Debt Ratings:	Aa2 (Moody's) AA- (Standard & Poor's)
Weighted Average Cost of Capital:	4.18%
Weighted Average Maturity:	14.3 Years
Interest Rate Mix:	100% Fixed Rate

SRB Operating Performance and Debt Service Coverage Ratios

For fiscal years ended June 30, 2013, June 30, 2014, and June 30, 2015, operating performance and debt service coverage ratios for the SRB program were as follows (amounts in millions):

	June 30, 2013	June 30, 2014	June 30, 2015
Operating Revenues	$1,475	$1,571	$1,701
Operating Expenses	1,058	1,122	1,232
Net Revenues	417	449	469
Annual Debt Service	243	259	266
Debt Service Coverage[1]	**1.72**	**1.73**	**1.76**

(1) The minimum benchmark for the system, as established by Executive Order 994, is 1.45.

2015A and 2015B SRB Issuance

In August 2015, the CSU issued $1,063,675,000 of Systemwide Revenue Bonds (Series 2015A $1,034,370,000 tax-exempt and Series 2015B $29,305,000 taxable). Of this amount, $684,710,000 was issued for new money projects at an all-in true interest cost of 3.95 percent. This new money component also included $131 million for projects under the CSU's new capital financing authorities. The CSU also took advantage of low interest rates and issued $378,965,000 in bonds to refund existing SRB and auxiliary debt, producing net present value savings of $57 million, or 14 percent of the refunded bonds. The refunding of debt will save SRB programs across the system approximately $3.1 million in combined cash flow per year.

CSU Policy for Financing Activities
Board of Trustees' Resolution
RFIN/CPBG 11-14-01

WHEREAS, The Board of Trustees of the California State University ("the Board" or "the Trustees") finds it appropriate and necessary to use various debt financing programs afforded to it through the methods statutorily established by the legislature, and to use to its advantage those programs available to it through debt financing by recognized auxiliary organizations of the California State University; and

WHEREAS, The Board recognizes the capital needs of the CSU require the optimal use of all revenues to support its academic mission; and

WHEREAS, The Board wishes to establish and maintain policies that provide a framework for the approval of financing transactions for the various programs that enable appropriate oversight and approval by the Trustees; and

WHEREAS, Within a policy framework, the Board desires to establish appropriate delegations that enable the efficient and timely execution of financing transactions for the CSU and its recognized auxiliary organizations in good standing; and

WHEREAS, The Board recognizes that there is a need from time to time to take advantage of rapidly changing market conditions by implementing refinancings or restructurings; and

WHEREAS, The Board finds it appropriate to use the limited debt capacity of the CSU in the most prudent manner; and

WHEREAS, There are certain aspects of the tax law related to the reimbursement of up-front expenses from tax-exempt financing proceeds that would be more appropriately satisfied through a delegation to the Chancellor without affecting the Trustees' ultimate approval process for such financings; now, therefore be it

RESOLVED, by the Board of Trustees of the California State University as follows:

Section 1. General Financing Policies

1.1 The State University Revenue Bond Act of 1947 (1947 Bond Act) and Education Code Sections 89770-89774 (EC 89770-89774) (collectively, the “CSU Bond Acts”) provide the Board of Trustees with the ability to acquire, construct, finance, or refinance projects funded with debt instruments repaid from various revenue sources.

1.2 The long-term debt programs of the Board of Trustees established pursuant to the CSU Bond Acts shall be managed by the Chancellor, to the greatest extent possible, to credit rating standards in the "A" category, at minimum.

1.3 The intrinsic rating of any debt issued by the Trustees shall be at investment grade or better.

1.4 The Trustees' debt programs should include the prudent use of variable rate debt and commercial paper to assist with lowering the overall cost of debt.

1.5 The Trustees' programs shall be designed to improve efficiency of access to the capital markets by consolidating bond programs where possible.

1.6 The Chancellor shall develop a program to control, set priorities, and plan the issuance of all long-term debt consistent with the five-year capital outlay program.

1.7 The Chancellor shall annually report to the Trustees on the activity related to the issuance of long-term debt.

Section 2. Financing Structure of the CSU's Debt Programs

2.1 To use the limited debt capacity of CSU in the most cost effective and prudent manner, all on-campus student, faculty, and staff rental housing, parking, student union, health center, and continuing education capital projects will be financed by the Trustees using a broad systemwide multi-source revenue pledge under the authority of the CSU Bond Acts in conjunction with the respective authority of the Trustees to collect and pledge revenues.

Other on-campus and off-campus projects, including academic and infrastructure support projects, will also be financed through this structure under the authority of the CSU Bond Acts, unless there are compelling reasons why a project could not or should not be financed through this structure (see Section 3 below).

2.2 The Chancellor is hereby authorized to determine which revenues may be added to the broad systemwide multi-source revenue pledge under the authority granted by the CSU Bond Acts, to determine when such revenues may be added, and to take appropriate action to cause such additional revenues to be pledged to CSU debt in accordance with the CSU Bond Acts.

2.3 The Chancellor shall establish minimum debt service coverage and other requirements for financing transactions undertaken under the CSU Bond Acts and/or for the related campus programs, which shall be used for implementation of the Trustees' debt programs. The Chancellor shall also define and describe the respective campus program categories.

2.4 The Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Deputy Assistant Vice Chancellor for Financing, Treasury, and Risk Management, and each of them (collectively, "Authorized Representatives of the Trustees"), are hereby authorized and directed, for and in the name and on behalf of the Trustees, to take any and all actions necessary to issue bonds pursuant to the CSU Bond Acts to acquire or construct projects. Authorized Representatives of the Trustees, with the advice of the General Counsel, are authorized to execute, acknowledge and deliver, and to prepare and review, as each of them deems appropriate, all bond resolutions, bond indentures, official statements and all other documents, certificates, agreements and information necessary to accomplish such financing transactions.

2.5 The Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Deputy Assistant Vice Chancellor for Financing, Treasury, and Risk Management, and each of them (collectively, "Authorized Representatives of the Trustees"), are hereby authorized and directed, for and in the name and on behalf of the trustees, to take any and all actions necessary to refinance any existing bonds issued pursuant to the CSU Bond Acts. Authorized Representatives of the Trustees, with the advice of the General Counsel, are authorized to execute, acknowledge and deliver, and to prepare and review, as each of them deems appropriate, all bond resolutions, bond indentures, official statements and all other documents, certificates, agreements and information necessary to accomplish such refinancing transactions.

Section 3. Other Financing Programs

3.1 The Board recognizes that there may be projects, or components of projects, that a campus wishes to construct that are not advantaged by, or financing is not possible for, or are inappropriate for financing under the CSU Bond Acts. A campus president may propose that such a project be financed as an auxiliary organization or third party entity financing, if there is reason to believe that it is more advantageous for the transaction to be financed in this manner than through the CSU Bond Acts financing program.

3.1.1 Such financings and projects must be presented to the Chancellor for approval early in the project's conceptual stage in order to proceed. The approval shall be obtained prior to any commitments to other entities.

3.1.2 These projects must have an intrinsic investment grade credit rating, and shall be presented to the Trustees to obtain approval before the financing transaction is undertaken by the auxiliary organization or other third party entity.

3.1.3 If a project is approved by the Trustees, the Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Deputy Assistant Vice Chancellor for Financing, Treasury, and Risk Management, and each of them (collectively, "Authorized Representatives of the Trustees") are hereby authorized and directed, for and in the name and on behalf of the Trustees, to execute, acknowledge and deliver, and to prepare and review, as each of them deems appropriate, any and all documents and agreements with such insertions and changes therein as such Authorized Representatives of the Trustees, with the advice of the General Counsel, may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof, in order to assist with the planning, design, acquisition, construction, improvement, financing, and refinancing of the projects.

3.2 The Chancellor may require campus presidents to establish campus procedures applicable to campus auxiliary organizations for the issuance of debt instruments to finance or to refinance personal property with lease purchase, line-of-credit, or other tax-exempt financing methods. The procedures issued by the

Chancellor need not contain a requirement for approval of the Trustees or the Chancellor but may include authority for campus presidents to take all actions to assist the auxiliary organization on behalf of the Trustees to complete and qualify such financing transactions as tax-exempt.

Section 4. State Public Works Board Lease Revenue Financing Program

4.1 The authorizations set forth in this section shall be in full force and effect with respect to any State Public Works Board project which has been duly authorized by the legislature in a budget act or other legislation and duly signed by the Governor and which is then in full force and effect.

4.2 The Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Deputy Assistant Vice Chancellor for Financing, Treasury, and Risk Management, and Assistant Vice Chancellor for Capital Planning, Design and Construction each of them (collectively, "Authorized Representatives of the Trustees") are hereby authorized and directed, for and in the name and on behalf of the Trustees, to execute, acknowledge and deliver, and to prepare and review, as each of them deems appropriate, any and all construction agreements, equipment agreements, equipment leases, site leases, facility leases and other documents and agreements with such insertions and changes therein as such Authorized Representatives of the Trustees, with the advice of the General Counsel, may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof, in order to provide for the planning, design, acquisition, construction, improvement, financing, and refinancing of the projects.

Section 5. Credit of the State of California

5.1 The delegations conferred by this resolution are limited and do not authorize the Chancellor or other Authorized Representatives of the Trustees to establish any indebtedness of the State of California, the Board of Trustees, any CSU campus, or any officers or employees of any of them. Lending, pledging or otherwise using the credit established by a stream of payments to be paid from funds appropriated from the State of California for the purpose of facilitating a financing transaction associated with a capital project is permitted only if specifically authorized by a bond act or otherwise authorized by the legislature.

Section 6. Tax Law Requirement for Reimbursement of Project Costs

6.1 For those projects which may be financed under the authority of the Trustees, the Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Deputy Assistant Vice Chancellor for Financing, Treasury, and Risk Management, and each of them (collectively, "Authorized Representatives of the Trustees"), are hereby authorized to make declarations on behalf of the Trustees solely for the purposes of establishing compliance with the requirements of Section 1.150-2 of the U.S. Treasury Regulations; provided, however that any such declaration:

6.1.1 Will not bind the Trustees to make any expenditure, incur any indebtedness, or proceed with the project or financing; and

6.1.2 Will establish the intent of the Trustees at the time of the declaration to use proceeds of future indebtedness, if subsequently authorized by the Trustees, to reimburse the Trustees for expenditures as permitted by the U.S. Treasury Regulations.

Section 7. Effective Date and Implementation

7.1 Within the scope of this financing policy, the Chancellor is authorized to further define, clarify and otherwise make and issue additional interpretations and directives as needed to implement the provisions of this policy.

7.2 This resolution supersedes RFIN 03-02-02 and shall take effect immediately.

THE CALIFORNIA STATE UNIVERSITY
OFFICE OF THE CHANCELLOR

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POMONA
SACRAMENTO
SAN BERNARDINO
SAN DIEGO
SAN FRANCISCO
SAN JOSÉ
SAN LUIS OBISPO
SAN MARCOS
SONOMA
STANISLAUS

October 23, 2006

MEMORANDUM

TO: CSU Presidents

FROM: Charles B. Reed
Chancellor

Charles B Reed

SUBJECT: Financing and Debt Management Policy – Project Development and the Systemwide Revenue Bond Program Executive Order No 994

Attached is a copy of Executive Order No 994 relating to the CSU's Financing and Debt Management Policy.

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

If you have questions regarding this executive order, please contact Colleen Nickles, Senior Director, Financing & Treasury, at (562) 951-4570 or cnickles@calstate.edu.

CBR/rr

Attachment

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

THE CALIFORNIA STATE UNIVERSITY
Office of the Chancellor
401 Golden Shore
Long Beach, California 90802-4210
(562) 951-4570

Executive Order:	994
Effective Date:	October 23, 2006
Supersedes:	Executive Order No. 876
Title:	Financing and Debt Management Policy — Project Development and the Systemwide Revenue Bond Program

Section 1: General Policies Regarding Financing Activities of the CSU

1.1 Authority: This policy statement provides information and procedures in connection with financing activities of campuses and auxiliary organizations. It is issued pursuant to Standing Orders of the Board of Trustees, Section 2, and the authority delegated to the Chancellor in the Trustees CSU Policy for Financing Activities, (RFIN 03-02-02; see Attachment B).

1.2 General Rule: Use of the capital markets to finance revenue-based, and in some limited cases, non-revenue-based non-state funded capital outlay projects of CSU campuses, auxiliaries, and other affiliated organizations shall be limited to the use of the Chancellor's Office tax-exempt or taxable commercial paper programs and the issuance of notes, bonds and other instruments, as approved by the Trustees, within the CSU Systemwide Revenue Bond Program as described below, hereafter referred to as the SRB Program. Additionally, the tax-exempt or taxable commercial paper program may also be used for the purpose of financing Chancellor's Office, campus, auxiliaries, and other affiliated organizations' personal property needs. The aspects of the Systemwide Revenue Bond Program and this policy are based on the fact that debt management is a dynamic undertaking, that evaluation of debt capacity and credit quality involves many different measures, and that the choice to use the specific criteria and measures in this policy may require change over time.

1.3 Types of Debt: The Trustees have traditionally issued variable-rate, short-term commercial paper for the construction period of a project, and fixed-rate, long-term debt for the permanent financing of a project. With the introduction of the commercial paper program use for personal property financing, the Trustees may not refinance these commercial paper issuances with long-term, fixed-rate debt, and the financed amounts will be amortized while the issuance remains in commercial paper.

Given this change in approach, the Trustees will establish a parameter that not more than 25% of its debt be unhedged variable rate debt, including commercial paper, to be consistent with rating agency expectations and market targets appropriate for the CSU's debt rating.

1.4 Alternative Financing Activities: An alternative financing structure to Section 1.2 above may be utilized if the Chancellor's Office or the campus is able to demonstrate significant benefits and if the Trustees approve the alternative structure. The Chancellor's Office or campus must not only demonstrate benefits for the use of an alternative structure, but must also identify the detailed structure of the proposed financing. In reviewing the proposed structure, the Trustees shall evaluate such things as 1) impacts on the CSU's financial statements, 2) the extent to which the financing will be counted as a use of the Trustees' credit, 3) the relative cost of the proposed financing, 4) the proposed use of financing techniques that involve greater repayment risk than are typically used in the SRB Program, and 5) any other short-term or long-term impacts to the Trustees' credit profile.

Section 2: Definitions

2.1 "Project": Construction of a facility or group of facilities related to the same use and constructed at the same approximate time (example; one or more dormitories constructed with one construction contract). Project may also be defined as personal property with a dollar value greater than $100,000.

2.2 "Stand-Alone Project": For a campus, a Stand-alone Project is a campus self-supporting activity supported by an Established CSU Fee that provides the source for repayment of debt for only one campus-related Project (e.g. the first campus-operated student housing facility). For an auxiliary organization a Stand-alone Project is a single Project operated by the auxiliary that is supported by the project-related revenue, or all of the auxiliary organization's available revenue (e.g. the first auxiliary-operated bookstore facility).

2.3 "Debt Program": For a campus, a Debt Program is a campus self-supporting activity funded by an Established CSU Fee that provides the source for repayment of debt for more than one campus-related Project (e.g. two or more separately financed campus-operated student housing facilities). For an auxiliary organization, a Debt Program is a program operated by the auxiliary that provides the source for repayment of debt for more than one auxiliary-operated Project (e.g. two separately financed auxiliary-operated food service facilities). Note that a general revenue pledge of all available auxiliary organization revenue makes it possible for the entire auxiliary organization program to be classified as a single Debt Program.

2.4 "Established CSU Fees": The following fee categories established in the Education Code have been pledged to the repayment of bonds issued by the SRB Program:

- Parking Fees (Education Code Section 89701)
- Student Body Center Fees (i.e., Student Union Fees) (Education Code Section 89304)
- Rental Housing Fees (Education Code Section 89703)
- Health Center Facility Fees (Education Code Section 89702)
- Continuing Education Revenue Fund Fees (Education Code Section 89704)

2.5 "Net Revenue Debt Service Coverage Ratios" (DSCR): A DSCR consists of annual gross revenue, less annual operating expenses divided by annual debt service. This ratio serves as a benchmark at the systemwide and campus level for decisions about new debt and the management of debt (See Section 4).

2.6 "Operating Expenses": For a Project or Program, Operating Expenses are defined as all costs related to providing a good or service, including regular maintenance charges, expenses of reasonable upkeep, a properly allocated share of charges for insurance, direct or special administrative expenses directly chargeable to the Project or Program, and all other expenses incident to the operation of the Project or Program, but excluding depreciation expense and other non-cash charges, general administrative expenses of the Board or the State, Extraordinary Expenses and Major Maintenance and Repairs, and Debt Service.

2.7 "Extraordinary Expenses and Major Maintenance and Repairs": For a Project or Program, Extraordinary Expenses and Major Maintenance and Repairs will not be included in the DSCR, and the expenses are expected to be paid from Building Maintenance and Equipment Reserves or from Prior Year Fund Balances.

Note: Operating Expenses, as defined in the SRB indenture, include extraordinary repairs in the calculation of debt service coverage; the indenture requires the Board to set rates, charges, and fees for all Projects so that Net Income Available for Debt Service is at least equal to Aggregate Debt Service for all indebtedness. Sections 2.5, 2.6, and 2.7 are intended for internal operations purposes and shall not result in a conflict with indenture requirements. Campuses are expected to monitor their Programs to ensure overall compliance with the indenture requirements for annual DSCR tests.

Section 3: Systemwide Revenue Bond Program (SRB)

3.1 Trustee Approval: Each issuance of debt instruments under the SRB Program shall be approved by the Trustees.

3.2 Gross Revenue Pledge: Bonds issued under the SRB Program are secured by a gross revenue pledge of all Established CSU Fees.

3.2.1 Lawfully available revenue may be pledged from a campus, auxiliary, or other organization through a formal binding agreement if approved by the Trustees.

3.3 Commercial Paper Program: Within the capacity of the CSU Chancellor's Office commercial paper program, each non-state funded capital outlay or personal property project may receive acquisition or construction funding through the issuance of commercial paper.

3.4 Auxiliary Organization Projects: Except as indicated in Section 1.3, Projects of auxiliary or other organizations (special purpose governmental units, such as a joint powers authority) shall be financed through the SRB Program.

3.4.1 Each auxiliary or other organization SRB project financing shall be supported by the execution of a financing lease between the auxiliary organization and the CSU with a legal structure that is permitted by the provisions of the State University Bond Act and the SRB Master Resolution.

3.4.1.1 For auxiliary or other organizations with no existing debt obligations, the lease shall contain provisions that 1) pledge all available corporation revenue to the Trustees for payment of the lease obligations; 2) require deposit of all pledged revenues (i.e., all revenues) into a pledged "gross revenue fund" bank account; 3) establish criteria for issuance of additional bonds; and 4) covenant that the auxiliary or other organization will set rates or otherwise maintain pledged income that will generate the required net revenue (See Section 4.4).

3.4.1.2 For auxiliary or other organizations with existing debt obligations, the lease shall contain provisions that 1) require the corporation to abide by the criteria of existing bonds for the issuance of "parity" debt; 2) establish that Trustees share in pledged revenue with all other bondholders on a parity basis; and 3) require that Trustees receive the same covenants as existing bondholders for the issuance of additional bonds and the same coverage required for a rate covenant for the existing bonds.

3.4.1.3 The financing lease shall be considered parity debt with all other, existing auxiliary or other organization debt.

3.4.1.4 The financing lease payment from the auxiliary or other organization to the CSU shall be calculated to include: 1) debt service associated with the bonds including the cost of participation in the commercial paper program, interest and principal on bonds issued to permanently finance the project and other debt management related costs of the CSU; and 2) any costs incurred by the auxiliary organization's campus for operation and maintenance for the financed facility. (See Executive Order No. 753)

3.4.2 At each campus the aggregate annual direct and indirect debt service for other third-party financings and for auxiliary or other financings that are either part of or separate from the SRB Program is limited to a maximum amount of 25% of the respective allocation of debt capacity to the respective campus (See Section 5).

3.5 Structure and Timing of Bond Transactions: The structure and timing of each issuance of SRB bonds shall be determined by the Chancellor's Office.

3.6 Allocation of Costs: Debt service and other debt management costs shall be allocated to campuses on the basis of a formula determined by the Chancellor's Office.

Section 4: DSCR Benchmarks

4.1 Systemwide (DSCR): For the system, the DSCR is computed using the total of the gross revenue of the Established CSU Fee plus any pledged revenue supporting SRB capital lease payments from auxiliary or other organizations. Operating expenses and debt service for the computation consist of the total operating expenses and debt service relating to these programs. The systemwide DSCR should be maintained at or above 1.45. If the SRB systemwide DSCR falls below 1.45, the campus benchmarks may be changed to strengthen the credit position of the Program. (See also Attachment A)

4.2 Combined Campus and Auxiliary Organizations (DSCR): At the combined campus and auxiliary organization level, the DSCR is similar to the systemwide DSCR test except that the amounts of pledged revenue, operating expenses, and debt service are related to the combined pledged revenues of the campus and auxiliary organizations' Established CSU Fees plus pledged revenue, operating expense and debt service that is related to the specific auxiliary organization Debt Program. The minimum requirement of the DSCR for a Combined Campus and its Auxiliary Organizations is 1.35.

4.3 Campus Debt Program (DSCR): The DSCR for a campus Debt Program must be equal to a minimum of 1.10. The DSCR for a campus Stand-alone Project must be equal to a minimum of 1.10. For these requirements the DSCR is computed from pledged revenue, operating expense and debt service that is related to the specific Debt Program or the Stand-alone Project.

4.4 Auxiliary Organization Project and Debt Program (DSCR): The DSCR for a campus auxiliary organization Debt Program must be equal to a minimum of 1.25. The DSCR for a campus SRB auxiliary organization Stand-alone Project must equal a minimum of 1.25. For these requirements the DSCR is computed from pledged revenue, operating expense and debt service that is related to the specific auxiliary organization Debt Program or the Stand-alone Project.

4.5 DSCR and Effective Year: The chief financial officer of a campus is responsible to implement plans and budgets so that the required DSCRs for campus CSU Established Fee programs and campus auxiliary organizations be supportable and maintained at or above the minimum level for the first operating year, and at or above the minimum for all subsequent years of operation for Stand-alone or Debt Program Projects.

Section 5: Debt Capacity

5.1 General Rule: Financing shall not be recommended by the Chancellor's Office if the issuance of new bonds will cause the total amount of issued and outstanding SRB bonds to exceed the CSU's debt capacity as determined by the Trustees.

5.2 Calculation of the CSU's Debt Capacity: Debt service on all issued and outstanding SRB bonds shall not at any time exceed an amount that would cause the quality of the CSU's credit to fall below a minimum level as determined by the Trustees.

5.3 Allocation of Debt Capacity to Campuses: Capacity, as measured by debt service on campus debt, shall be allocated to CSU campuses as follows:

5.3.1 Campus general allocation: The aggregate debt service related to a campus' individual projects shall not exceed an amount computed from its net unrestricted expenditures times two-thirds (2/3) of the same ratio that the Trustees have recognized as appropriate for the system.

5.3.2 Chancellor's Office special allocation: With concurrence of the Trustees, the Chancellor's Office may allocate portions of up to an additional one-third (1/3) of the CSU's debt service capacity to individual campuses for special priority purposes.

Section 6: General Financial Planning Principles For Projects

6.1 Project Size: The CSU SRB Program is intended to provide a mechanism to finance revenue based, and in some limited cases, non-revenue-based non-state capital outlay projects pursuant to the State University Revenue Bond Act of 1947 and the issuance of debt to the public through a complex legal structure and financial marketing process. As such, the Program is suitable for projects of greater than $3 million, and with a useful life of greater than ten years. For personal property financed through the commercial paper program, financings should be $100,000 to $5,000,000, with a useful life of 1-8 years. See Section 7 for program-related costs that should be funded through a reserve plan rather than through the issuance of debt.

6.2 Allocation of Debt Service: The plan of finance for SRB Projects shall assume level debt service and allocation of long-term debt over 25 or 30 years unless the useful life of the asset financed is less. In some cases, the debt service may be structured to allow for accelerating debt service, bullet repayments of principal, shorter repayment terms, or other special arrangements as determined appropriate for a project. The Trustees will be notified in the Financing item at the time of approval if an alternative debt service repayment schedule will be utilized.

6.3 Timing of Bond Sale: The plan of finance shall assume the sale of long-term debt at the time of initiation of construction (i.e., including capitalized construction period interest) to meet net revenue debt coverage ratio tests.

6.4 Interest Rate Assumptions: The plan of finance for Projects shall incorporate a moderate interest rate contingency for unfavorable changes in interest rates between the time of the initial financial plan and the time long-term bonds will be sold.

6.5 Consistency of Computations: Upon request the Chancellor's Office will provide the debt service information to be used in all financial plans relating to debt issuance in order to ensure that information regarding the debt is consistently prepared.

Section 7: Reserves

7.1 Reserve Development: The campus president and chief financial officer are responsible for developing and maintaining a campus policy to provide reserves from Project revenues for projects funded by debt issued by the Board of Trustees. The campus reserve policies, at a minimum, should address the following needs:

- Major Maintenance and Repair/Capital Renovation and Upgrade
- Working Capital
- Capital Development for New Projects
- Catastrophic Events

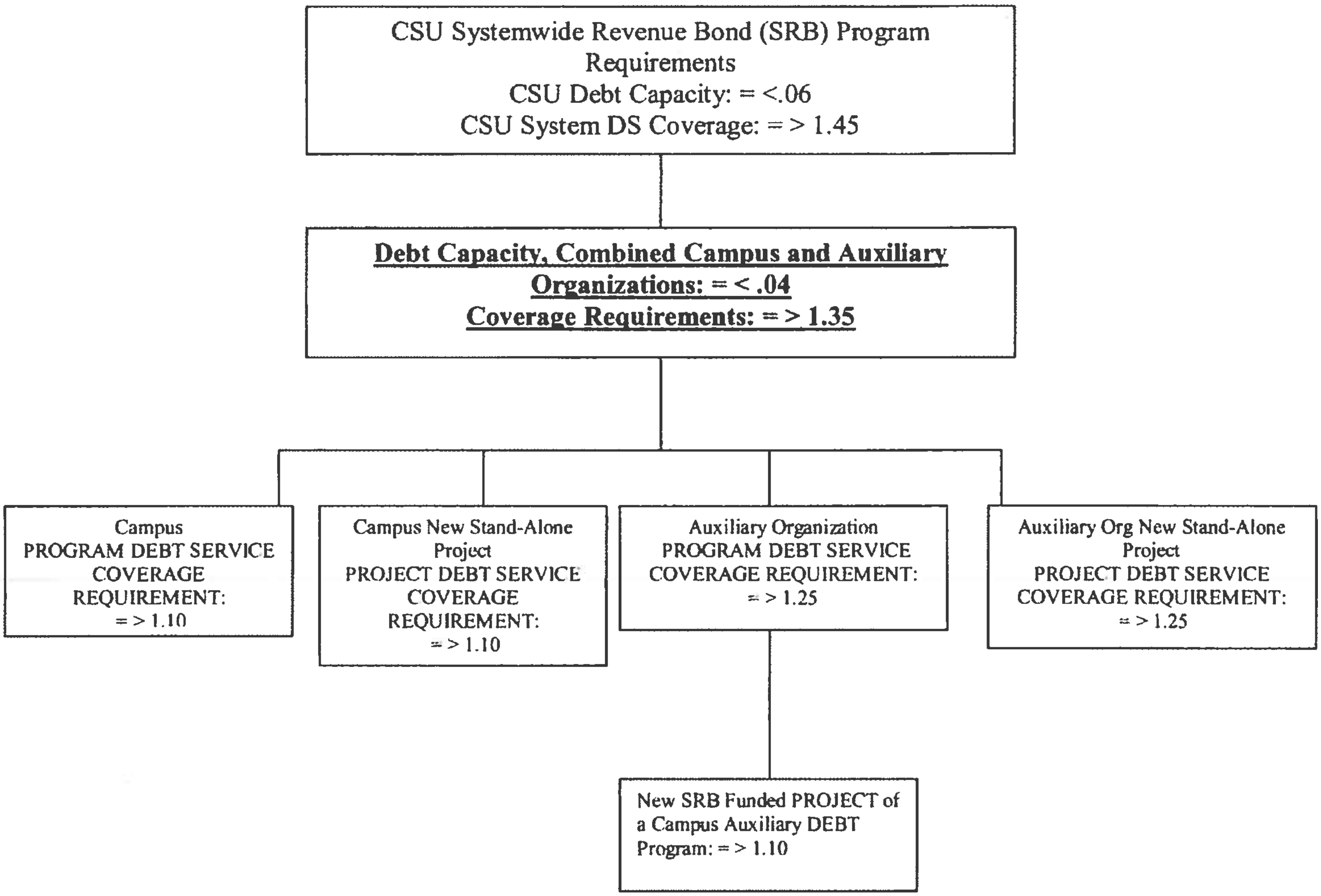
7.2 Reserve Review: At a minimum of once every three years, each campus shall conduct an in-depth review to assess the adequacy of the reserves and the campus reserve policies applicable to the projects funded by debt, and shall make necessary adjustments and changes to account for changing conditions. For Major Maintenance and Repair/Capital Renovation and Upgrade Reserves, the reviews should include formal studies of facility systems and necessary funding levels to cover all aspects of cost of replacement through the reserve-funding plan.

Charles B. Reed

Charles B. Reed, Chancellor

Date: October 23, 2006

Attachment A



Attachment B

CSU Policy for Financing Activities
Board of Trustees' Resolution
RFIN 03-02-02

WHEREAS, The Board of Trustees of The California State University ("the Board" or "the Trustees") finds it appropriate and necessary to use various debt financing programs afforded to it through the methods statutorily established by the legislature, and to use to its advantage those programs available to it through debt financing by recognized auxiliary organizations of the California State University; and

WHEREAS, The Board wishes to establish and maintain policies that provide a framework for the approval of financing transactions for the various programs that enable appropriate oversight and approval by the Trustees; and

WHEREAS, Within a policy framework the Board desires to establish appropriate delegations that enable the efficient and timely execution of financing transactions for the CSU and its recognized auxiliary organizations in good standing; and

WHEREAS, The Board recognizes that there is a need from time to time to take advantage of rapidly changing market conditions by implementing refinancings that will lower the cost of debt financing for the CSU and its auxiliary organizations and that such refinancings could be better implemented by reducing the time required to authorize such refinancings; and

WHEREAS, The Board finds it appropriate to establish the lowest cost debt financing programs for the CSU, and to use the limited debt capacity of the CSU in the most prudent manner; and

WHEREAS, There are certain aspects of the tax law related to the reimbursement of up-front expenses from tax-exempt financing proceeds that would be more appropriately satisfied through a delegation to the Chancellor without affecting the Trustees' ultimate approval process for such financings; now, therefore be it

RESOLVED, by the Board of Trustees of The California State University as follows:

Section 1. General Financing Policies

1.1 The State University Revenue Bond Act of 1947 (Bond Act) provides the Board of Trustees with the ability to acquire, construct, or refinance projects funded with debt instruments repaid from various revenue sources.

1.2 The long-term debt programs of the Board of Trustees established pursuant to the Bond Act shall be managed by the Chancellor to credit rating standards in the "A"e category.

1.3 The intrinsic rating of any debt issued by the Trustees shall be at investment grade or better.

1.4 The Trustees debt programs should include the prudent use of variable rate debt and commercial paper to assist with lowering the overall cost of debt.

1.5 The Trustees programs shall be designed to improve efficiency of access to the capital markets by consolidating revenue bond programs where possible.

1.6 The Chancellor shall develop a program to control, set priorities and plan the issuance of all long-term debt consistent with the five-year non-state capital outlay program.

1.7 The Chancellor shall annually report to the Trustees on the activity related to the issuance of long-term debt.

Section 2. Financing Program Structure of the CSU's Debt Program

2.1 To use the limited debt capacity of CSU in the most cost effective and prudent manner, all on-campus student, faculty and staff rental housing, parking, student union, health center, and continuing education capital projects will be financed by the Trustees using a broad systemwide multi-source revenue pledge under the authority of the Bond Act in conjunction with the respective authority of the Trustees to collect and pledge revenues.

Other revenue-based on-campus and off-campus projects will also be financed through this program and the Bond Act unless there are compelling reasons why a project could not or should not be financed through this program (see Section 3 below).

2.2 The Chancellor shall establish minimum debt service coverage and other requirements for Bond Act financing transactions and/or for the related campus programs, which shall be used for implementation of the Trustees' debt programs. The Chancellor shall also define and describe the respective campus program categories.

2.3 The Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Senior Director of Financing and Treasury, and each of them (collectively, "Authorized Representatives of the Trustees"), are hereby authorized and directed, for and in the name and on behalf of the trustees, to take any and all actions necessary to refinance any existing bonds issued pursuant to the Bond Act of 1947 if the refinancing transaction will result in net present value savings, as determined by an Authorized Representative of the Trustees and which determination shall be final and conclusive. Authorized Representatives of the Trustees are authorized to execute, acknowledge and deliver, and to prepare and review, as each of them deems appropriate, all bond resolutions, bond indentures, official statements and all other documents, certificates, agreements and information necessary to accomplish such refinancing transactions.

Section 3. Other Financing Programs

3.1 The Board recognizes that there may be projects, or components of projects, that a campus wishes to construct that are not advantaged by, or financing is not possible, or is inappropriate for the Bond Act financing program. A campus president may propose that such a project be financed as an auxiliary organization or third party entity financing if there is reason to believe that it is more advantageous for the transaction to be financed in this manner than through the Bond Act financing program.

3.1.1 Such financings and projects must be presented to the Chancellor for approval early in the project's conceptual stage in order to proceed. The approval shall be obtained prior to any commitments to other entities.

3.1.2 These projects must have an intrinsic investment grade credit rating, and shall be presented to the Trustees to obtain approval before the financing transaction is undertaken by the auxiliary organization or other third party entity.

3.1.3 If a project is approved by the Trustees, the Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Senior Director of Financing and Treasury, and each of them (collectively, "Authorized Representatives of the Trustees") are hereby authorized and directed, for and in the name and on behalf of the Trustees, to execute, acknowledge and deliver, and to prepare and review, as each of them deems appropriate, any and all documents and agreements with such insertions and changes therein as such Authorized Representatives of the Trustees, with the advice of the General Counsel, may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof, in order to assist with the planning, design, acquisition, construction, improvement, financing, and refinancing of the projects.

3.2 The Chancellor may require campus presidents to establish campus procedures applicable to campus auxiliary organizations for the issuance of debt instruments to finance or to refinance personal property with lease purchase, line-of-credit, or other tax-exempt financing methods. The procedures issued by the Chancellor need not contain a requirement for approval of the Trustees or the Chancellor but may include authority for campus presidents to take all actions to assist the auxiliary organization on behalf of the Trustees to complete and qualify such financing transactions as tax-exempt.

Section 4. State Public Works Board Lease Revenue Financing Program

4.1 The authorizations set forth in this section shall be in full force and effect with respect to any State Public Works Board project which has been duly authorized by the Legislature in a budget act or other legislation and duly signed by the Governor and which is then in full force and effect.

4.2 The Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Senior Director of Financing and Treasury, and each of them (collectively, "Authorized Representatives of the Trustees") are hereby authorized and directed, for and in the name and on behalf of the Trustees, to execute, acknowledge and deliver, and to prepare and review, as each of them deems appropriate, any and all construction agreements, equipment agreements, equipment leases, site leases, facility leases and other documents and agreements with such insertions and changes therein as such Authorized Representatives of the Trustees, with the advice of the General Counsel, may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof, in order to provide for the planning, design, acquisition, construction, improvement, financing, and refinancing of the projects.

Section 5. Credit of the State of California

5.1. The delegations conferred by this resolution are limited and do not authorize the Chancellor or other Authorized Representatives of the Trustees to establish any indebtedness of the State of California, the Board of Trustees, any CSU campus, or any officers or employees of any of them. Lending, pledging or otherwise using the credit established by a stream of payments to be paid from funds appropriated from the State of California for the purpose of facilitating a financing transaction associated with a capital project is permitted only if specifically authorized by a bond act or otherwise authorized by the legislature.

Section 6. Tax Law Requirement for Reimbursement of Project Costs

6.1 For those projects which may be financed under the authority of the Trustees, the Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Senior Director of Financing and Treasury, and each of them (collectively, "Authorized Representatives of the Trustees"), are hereby authorized to make declarations on behalf of the Trustees solely for the purposes of establishing compliance with the requirements of Section 1.150-2 of the U.S. Treasury Regulations; provided, however that any such declaration:

6.1.1 Will not bind the Trustees to make any expenditure, incur any indebtedness, or proceed with the project or financing; and

6.1.2 Will establish the intent of the Trustees at the time of the declaration to use proceeds of future indebtedness, if subsequently authorized by the Trustees, to reimburse the Trustees for expenditures as permitted by the U.S. Treasury Regulations.

Section 7. Effective Date and Implementation

7.1 Within the scope of this financing policy, the Chancellor is authorized to further define, clarify and otherwise make and issue additional interpretations and directives as needed to implement the provisions of this policy.

7.2 This resolution supercedes RFIN 11-98-18 and shall take effect immediately. However, the Chancellor shall have the authority to authorize on a individual basis, auxiliary organization projects that are in the planning stage as of the adoption of this policy to proceed under the previous policy in order to prevent situations that would result in additional project costs or additional time-to-completion.

COMMITTEE ON FINANCE

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

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

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, 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 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 $3,725,000 to provide financing for one campus project. The board is being asked to approve resolutions related to this financing. 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 project is as follows:

California State University, San Bernardino Parking Lot N

The California State University, San Bernardino Parking Lot N project is being presented for approval by the board for the amendment of the Non-State Capital Outlay program in Agenda Item 3 of the March 7-9, 2016 Committee on Campus Planning, Buildings and Grounds meeting.

The not-to-exceed par amount of the proposed bonds is $3,725,000 and is based on a total project budget of $6,454,000 with a program reserve contribution of $2,954,000. Additional net financing costs, such as capitalized interest and cost of issuance (estimated at $225,000), are expected to be funded from bond proceeds. The project is scheduled to start construction in March 2016 with completion expected in August 2016.

The following table summarizes key information about this financing transaction.

Not-to-exceed amount	$3,725,000
Amortization	Approximately level over 25 years
Projected maximum annual debt service	$261,968
Projected debt service coverage including the new project:	
Net revenue – San Bernardino pledged revenue programs: [1]	1.91
Net revenue – Projected for the campus parking program:	1.32

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 5.20 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 1.32 in 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 1.91, which exceeds the CSU benchmark of 1.35 for a campus.

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 $3,725,000 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 March 7-9, 2016, meeting of the CSU Board of Trustees is recommended for:

California State University, San Bernardino Parking Lot N

COMMITTEE ON FINANCE

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

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

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

Mildred García
President
California State University, Fullerton

Summary

This item requests conceptual approval to pursue a public-private partnership plan through CSU Fullerton Auxiliary Services Corporation, (herein referred to as "ASC"), a recognized campus auxiliary organization, for the development of a mixed-use project (herein referred to as "College Park") on ASC real property adjacent to California State University, Fullerton.

Background

The College Park site is located south of Nutwood Ave., directly across the street from the Steven G. Mihaylo College of Business and Economics building on the campus. The real property owned by ASC currently contains an office building at the north end and surface parking. The proposed development does not include the existing office building. The 2003 Campus Master Plan currently designates the development site for faculty, staff, and student housing, including a 1,200 space parking garage. In 2010, ASC and the campus began to explore development options for the site, and in 2011, campus stakeholders were interviewed to confirm the highest and best use for the development site. The result of that evaluation was the recommendation for ASC to develop a mixed use project which would include a combination of student friendly housing, ground floor retail space, parking, and possibly commercial space. In March 2014, the campus engaged an outside consultant to conduct an additional market survey, the results of which demonstrated a demand for additional student housing.

Project Description

The proposed site for this mixed-use development is approximately 6.2 acres and is located primarily south of the existing office building. The College Park project site is currently leased to the campus and used as surface parking with 833 parking spaces. There are additional parking spaces on the north and west sides of the building (approximately 0.8 acres).

The campus has received support from the Land Development Review Committee.

Educational Benefits

The development of this property will help support the academic mission of the campus by providing land uses that will complement services required by the campus, but which are currently not available or inadequate to meet the growing campus population. The potential land uses that would provide educational benefits include student friendly housing as the current on-campus housing facilities are targeted at freshmen students and are at capacity; retail opportunities that are not currently provided by ASC; potential conference facilities that could be integrated with an academic program; and potential office space.

Budget and Financing

ASC anticipates leasing the development site to a developer selected through a competitive bid process. No campus or auxiliary funds will be committed to the project and the developer will be fully responsible for the financing, construction and management of the project during the term of the sublease. The ground lease will be structured to ensure that ASC receives rent based upon fair market value of the site at a minimum.

The developer will also be responsible for funding all costs associated with the environmental and entitlement processes in accordance with CSU requirements. Furthermore, because the College Park site is presently financed on a tax-exempt basis with CSU Systemwide Revenue Bonds, the selected developer will be responsible for mitigating and possibly providing funds to pay off any debt that is no longer eligible for tax-exempt financing due to the development. Through provisions in the legal documents, ASC will also ensure that the facility is well maintained and adequately funded by maintenance reserves throughout the life of the agreement.

Approval of the Final Development Plan

Per Board of Trustees 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 environmental documents will be presented at future meetings for final approval by the board prior to execution of any commitments for development and use of the property.

Recommendation

The following resolution is recommended 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 a mixed-use development on 6.2 acres at California State University, Fullerton and the release of the Request for Qualifications/Proposals;

2. Authorize the chancellor, the campus, and the ASC to enter into negotiations for agreements as necessary to develop a final plan for the public-private partnership as explained in Agenda Item 3 of the March 7-9, 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 future action items relating to the final plan:

    a. Certification of Final California Environmental Quality Act (CEQA) documentation;
    b. Approval of a developer agreement 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 Capital Outlay Program;
    e. Approval of the schematic design.

COMMITTEE ON FINANCE

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

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

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

Jeffrey D. Armstrong
President
California Polytechnic State University, San Luis Obispo

Summary

This item requests conceptual approval to pursue a public-private partnership plan for the development of a faculty/staff apartment complex on the California Polytechnic State University, San Luis Obispo campus.

Background

The lack of workforce rental housing suitable for faculty and staff in San Luis Obispo is a known impediment to campus efforts to recruit and retain employees. Virtually all rental apartments in close proximity to campus are suited for student housing and thus do not meet the housing needs of faculty and staff.

In March 2015, the campus contracted with a consulting firm to conduct market analysis of potential demand for the development of faculty and staff housing on campus. Based upon the analysis, including inquiries with numerous reputable development firms, there appears to be strong demand for such a project.

Project Description

The project proposes the construction of up to approximately 420 apartment homes on a 15-acre site along the southeastern boundary of the campus, situated near the main entrance on Grand Avenue. The site is currently undeveloped and is used periodically for pasturing horses.

The site has several attributes conducive to apartment development, including its close proximity to the surrounding residential community, various campus amenities such as the Performing Arts Center and on-campus athletic venues, and the 101 Freeway, as well as land available for self-contained parking. It is anticipated that the project will include design amenities on par with higher-end private garden style apartments.

The campus received support for the development from the Land Development Review Committee in November 2015.

Education Benefits

The development of the project site will help support the academic mission of the campus by providing greater access to much-needed housing options for employees, visiting scholars, and potentially graduate students with families. Additionally, the on-campus housing facility may help reduce commuter traffic.

Budget and Financing

The campus anticipates leasing the development site to a developer selected through a competitive bid process. No campus funds will be committed to the project and the developer will be responsible for the related financing, construction, and management of the property during the term of the lease. The lease will be structured to ensure that the campus receives rent based upon fair market value, at minimum.

The developer will be responsible for funding all costs associated with the environmental and entitlement processes in accordance with CSU requirements. Through provisions in the legal documents, the campus will ensure that the facility is well maintained and adequately funded by maintenance reserves throughout the life of the agreement.

Approval of the Final Development Plan

Per Board of Trustees 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 environmental documents will be presented at future meetings for final approval by the board 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 an apartment development for campus faculty and staff and the release of the Request for Qualifications/Proposals;

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 4 of the March 7-9, 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 future action items relating to the final plan:
   a. Certification of Final California Environmental Quality Act (CEQA) documentation;
   b. Approval of a developer agreement 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

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

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Robert Eaton
Assistant Vice Chancellor
Finance, Treasury and Risk Management

Leslie E. Wong
President
San Francisco State University

Summary

San Francisco State University requests conceptual approval to pursue a public-private partnership with the Giants Community Fund to establish a Junior Giants Urban Youth Academy, an athletic and educational program for underserved youth and their families on the San Francisco State University campus.

Background

The San Francisco Giants Community Fund and Major League Baseball have proposed collaborating with San Francisco State University to establish the Junior Giants Urban Youth Academy at the university. This collaboration will advance the mission of both institutions to provide positive encouragement and support for youth who live in neighborhoods with limited opportunities and to expand their horizons in pursuit of higher education. The partnership represents a shared vision for community-building and social justice. The Urban Youth Academy at San Francisco State will strengthen the educational pipeline of local communities to the campus and provide San Francisco State students and faculty with opportunities for hands-on learning and research.

Project Description

The proposed project is the construction of a youth-size baseball field and a 16,500-square-foot structure housing a learning center, covered infield, and batting cages on a 2-acre site along the western boundary of the campus, off Lake Merced Boulevard. The site currently contains 14 tennis courts used primarily by outside community groups. The Giants Community Fund would also construct an activity plaza and restrooms east of the site for shared access and events support. In addition, San Francisco State would improve its existing varsity baseball and softball fields for shared use by the university and the Urban Youth Academy.

The site has attributes advantageous for the Urban Youth Academy program, including co-location with the existing baseball field, proximity to the softball field for special events, a valley location that minimizes the visual impact of the structure, and separation from the academic core. The site provides easy access to Lake Merced Boulevard, public transportation, drop-off for daily arrivals, and parking for special events. The site is master-planned for recreation and athletics use.

The Urban Youth Academy would serve as a year-round facility on the campus for 75-150 disadvantaged girls and boys, ages 7 to 18, per weekday plus weekend clinics and other large group programs throughout the year. It would provide program participants with free baseball instruction, academic enrichment, and mentoring.

Education Benefits

The academic dimension of the Urban Youth Academy will be focused on cultivating a higher education pipeline for students, under the leadership of Student Affairs & Enrollment Management (SAEM) at the campus and with the collaborative efforts of several SAEM units such as Student Outreach Services, Financial Aid Office, and Office of Undergraduate Admissions. The Urban Youth Academy's "Baseball to Baccalaureate" programming will prepare the city's underserved students for college, while exposing them to a variety of educational and academic opportunities. For over 45 years, the campus and the Educational Opportunity Program have improved access for, and retention of, historically underserved, low income, first generation college students by facilitating their matriculation into San Francisco State and by providing a support system for their success.

The Urban Youth Academy will also provide opportunities for current San Francisco State students to study the natural laboratory aspects of the development of children and youth. This will be particularly valuable for students in Kinesiology and for faculty studying the role of exercise in curbing obesity and enhancing executive function in the developing brain. It will permit students majoring in Recreation, Parks, and Tourism to study the role of sports in maintaining academic preparedness in at-risk youth. It should open opportunities for research for faculty and service learning experiences for students in a number of disciplines, as they engage with the Giants and other community members to interact with participants through the Urban Youth Academy.

Budget and Financing

The campus anticipates providing a license to the Giants Community Fund to construct the facilities described above and entering into a long-term ground lease for the constructed facilities, which will be owned and maintained by the campus. The approximate $5 million cost of the improvements, as well as the replacement cost of the existing tennis courts, will be funded by the Giants Community Fund. The lease agreement with the Giants Community Fund will include fair market value rent for the land and will cover all operational and maintenance costs of the facilities, including utilities, as well as the costs of improving the baseball and softball fields.

Approval of the Final Development Plan

Per Board of Trustees' 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 environmental documents will be presented at future meetings for final approval by the board prior to execution of any commitments for development and use of the property.

Furthermore, prior to presentation of the final development plan to the Board of Trustees, San Francisco State University will provide information to the chancellor which demonstrates the following:

- The partnership will provide a substantial and clear link of the partnership to specific academic programs which furthers the educational mission of the university, in addition to cultivating a higher education pipeline for students.
- The valuation of the project site for the determination of ground lease rent will consider land in the immediate vicinity of the university at its highest and best use to determine the market value.
- The ground lease revenue produced through the partnership will meet or preferably exceed campus costs to construct, operate, and maintain the proposed Junior Giants Urban Youth Academy, as well as any campus costs to renovate, operate, and maintain the existing varsity baseball and softball fields to be used jointly by the campus and the Junior Giants organization; and ancillary costs including but not limited to campus police services, security, parking, and janitorial services.
- Joint use of existing campus varsity baseball and softball fields by the Junior Giants Urban Youth Academy will not significantly affect use of the fields by university programs or athletics and not adversely affect the condition of the fields.
- Partnership agreements will contain a provision to indemnify CSU during construction, operation, and maintenance of the project.

- The ground lease will include a provision requiring an assessment to be provided to the Chancellor every five years which verifies the expected academic, pedagogic, and advancement benefits of the project to the campus and that ground lease revenue received by the campus exceeds campus costs. The ground lease shall also enable CSU to cancel or renegotiate the ground lease if such verification is unable to be obtained.
- The project will be consistent with provisions of the Memorandum of Understanding dated October 30, 2007 between the City and County of San Francisco and the California State University relating to transportation measures.

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 Junior Giants Urban Youth Academy;
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 5 of the March 7-9, 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 developer agreement 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

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

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

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

Summary

This agenda item requests the Board of Trustees of the California State University to authorize the issuance of long term Systemwide Revenue Bonds (SRB) and related debt instruments, including shorter term and variable rate debt, in an aggregate amount not-to-exceed $1,200,000,000 to refinance and restructure State Public Works Board (SPWB) bond debt that has been issued for the benefit of the CSU. The debt will be issued in coordination with future SRB sales. The long term, fixed rate SRB debt issued under this authorization is expected to bear the same ratings from Moody's Investors Service and Standard & Poor's as the existing SRBs. This agenda item is a follow-up to the information item on the restructuring of the State Public Works Board debt that was presented to the board in November 2015.

Background

Currently, approximately $980 million of SPWB bond debt issued for the benefit of the CSU is outstanding. Proceeds from the issuance of these bonds, which were issued from 1993 through 2013, were used to build or renovate academic projects across the CSU system. Historically, the principal and interest on these bonds has been paid by the State through an annual general fund appropriation to the CSU that would fluctuate depending upon the amount of principal and interest due in that particular fiscal year. Thus, while the legal structure of the bonds required that the debt be carried on the CSU's financial statements, as a practical matter, the State paid the debt service on the bonds.

Legislation passed in July 2014 altered the way the State funds capital projects for the CSU and provided the CSU with new capital financing authorities. As a result, the budget responsibility for paying debt service on SPWB and State general obligation bonds issued on behalf of the CSU shifted from the State to the CSU. For the 2014-2015 fiscal year, the CSU received a $297 million augmentation to its base general fund appropriation to cover debt service on the State Public Works Board and State general obligation bonds. This augmentation would no longer be adjusted each year for fluctuations in the actual debt service, meaning that, in future years when the debt service is greater than the $297 million, the CSU will need to find other resources to make up the difference. Conversely, in future years when the debt service is lower than the $297 million, the CSU will retain the savings.

The legislation also provided the CSU with new capital financing authorities, including the ability to refinance the SPWB bond debt with debt issued directly by the CSU such as SRB debt. Any savings generated by such a refinancing would not impact the $297 million base budget augmentation and, therefore, would accrue to the benefit of the CSU. Furthermore, the $297 million will not be reduced as a result of reducing SPWB debt and replacing it with SRB debt.

Refinancing Plan Objective

The basic goal of refinancing and restructuring the CSU's SPWB bond debt with CSU SRB debt is to generate savings and cash flow benefits for the CSU—i.e. reduce the amount of debt service that is required to be paid, thereby freeing up funds to meet other system needs. Generally, these objectives can be measured in one or a combination of two ways:

- Refinancing for Net Present Value Savings

  These types of savings are the same as those generated by the refinancing of SRB debt and which periodically are reported to the board. These savings are achieved by refinancing debt, without extending the principal repayment period, at lower interest rates than what is currently being paid on the outstanding debt and reducing the amount of funds needed to service the outstanding debt. When evaluated in current dollars—i.e. on a net present value basis—the savings are positive and significant.

  Currently, approximately $450 million of the outstanding SPWB bonds can be refinanced on this basis, resulting in net present value savings of approximately $52 million or annual average savings of $3.1 million over the next twenty years.

- Restructuring for Cash Flow Benefits

  Cash flow benefits are generated by restructuring the amortization schedule of the principal. This is done by extending the terms of the bond or by deferring the start of principal amortization, each of which lowers the principal component of the near term debt service, thereby reducing the amount of cash flow needed to service the outstanding debt in the near term and freeing up cash flow for other needs. However, when evaluated in current dollars—i.e. on a net present value basis—there can be a negative impact on savings because of the increased debt service that must be paid over a longer term.

Key Structuring Parameters

Because of the complexity and size of the transaction, and because of the potential for changing market conditions between now and the sale of debt, this item outlines key structuring parameters that will serve as guidelines for staff as the transaction is structured and finalized.

Amount of State Public Works Board Bonds to be Refinanced and Restructured

Of the $980 million in outstanding SPWB bonds, approximately $773 million are good candidates for near term refinancing and restructuring. The remaining $207 million of bonds are not suitable candidates for refinancing and restructuring in the foreseeable future due to the extremely high cost of doing so or because the bonds will be paid in full in less than two years.

The not-to-exceed principal amount assumes the eventual refinancing and restructuring of all of the SPWB bonds in order to provide flexibility on the timing and structure of the bond sale, and in the event that market conditions or other circumstances change significantly enough to warrant the refinancing and restructuring of all bonds.

Restructuring to Adjust the Asset-Liability Match

Historically, the SPWB bonds issued on behalf of the CSU had shorter amortization periods (generally 25 years) when compared to SRB debt (generally 30 years). In refinancing and restructuring SPWB bonds, the CSU expects to extend the amortization schedule of the debt to more closely align with the average useful life of the underlying assets. For the $773 million of bonds that are most suitable for near term refinancing and restructuring, the amortization of principal will be extended to no more than forty years. In addition, the refinancing debt may have an interest only period of up to 10 years.

Use of Variable Rate or Shorter Term Debt

Historically, the CSU has issued long-term, fixed-rate bonds under its SRB program and the SPWB bond debt was issued on that same basis, although with a shorter amortization period. However, in order to reduce the potentially negative impact that restructuring and extending the repayment of principal will have on net present value savings, the refinancing and restructuring will utilize variable rate debt or debt instruments with shorter maturities, thereby lowering the interest rate component of the near term debt service. The use of variable rate or shorter term debt will be a key component in generating cash flow benefits compared to an all long term, fixed rate structure. However, the use of variable rate debt and shorter term debt introduces interest rate risk or refinancing risk at the time of initial maturity, specifically, the possibility that interest rates may be higher than otherwise would have been the case had fixed rate debt been issued at the outset.

Generally, prudent use of variable rate or shorter term debt can reduce interest costs relative to long-term, fixed rates in exchange for a reasonable degree of interest rate risk. In order to balance this risk-reward trade-off for this transaction, the structure is expected to utilize variable rate or shorter term debt within a range of 25 to 50 percent of the transaction size. For purposes of planning and sizing the transaction, and estimating savings, the interest cost of the variable rate or shorter term debt component is being assumed at 3 percent, which is roughly equivalent to average short-term rates over the last 25 years with an allowance for annual costs.

Net Present Value and Cash Flow Savings Targets

On a total transaction basis, staff will target net present value savings that are at least neutral when compared to the debt service on the existing SPWB bonds that are refinanced and restructured, and will target cash flow savings over the next ten years at a minimum of $200 million to address the CSU's deferred maintenance and critical infrastructure backlog.

Revenue Pledge

To appropriately support the refinancing and restructuring of the SPWB debt, student tuition fees will be added to the existing SRB revenue pledge. As of June 30, 2015, pledged revenues of the SRB program totaled approximately $1.7 billion. With the addition of approximately $2.5 billion in estimated gross student tuition for 2015-2016, the total SRB pledged revenues will increase to approximately $4.2 billion, providing support for annual debt service on all SRB debt (after the refinancing and restructuring) of approximately $5.6 billion of outstanding SRB debt ($4.4 billion of current outstanding bonds plus up to approximately $1.2 billion to pay off the SPWB bonds assuming full use of the not-to-exceed amount.)

Although the 2014 legislation that granted new capital financing authorities to the CSU allows the CSU to pledge its annual state general fund appropriation to support the issuance of debt, the annual state general fund appropriation is not being added to the SRB revenue pledge based upon legal, financial, and operating considerations.

Trustee Resolutions and Recommendations

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 item. 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, short to medium term debt instruments, variable rate debt instruments, 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 $1,200,000,000 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 described in this Agenda Item 6 of the Committee on Finance at the March 7-9, 2016, meeting of the CSU Board of Trustees is recommended.

COMMITTEE ON FINANCE

Update on the Sustainable Financial Model Task Force Report

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Summary

This item presents the report of the Sustainable Financial Model for the California State University Task Force, which is included as Attachment A to this agenda item. The report has been revised to reflect discussion at the January 2016 Board of Trustees meeting. In addition, the presentation will provide an overview of next steps for a number of recommendations in the report.

Background

The task force was established in October 2014 by Chancellor Timothy White, and was co-chaired by two campus presidents and the executive vice chancellor and chief financial officer. The charge to the task force was to propose a sustainable financial plan for the university, recognizing the changes in state funding of higher education, our inability to meet demand by qualified students, and critical faculty and facility needs for instruction and support.

Membership of the task force included the student trustee and the chair of the California State Student Association, the faculty trustee, the Chair of the Academic Senate, two campus provosts, three campus chief financial officers, and a campus vice president for student affairs.

The final task force report includes nineteen recommendations across five major areas including resource allocation, administrative effectiveness, managing costs, and revenue generation all in the context of supporting a quality education and student acheivement. For each area, the final report includes a brief review of the background challenges, provides a conceptual proposal to address the challenges, summarizes the rationale for the proposal, and describes specific recommendations.

Consultation

The task force consulted with a broad array of individuals and groups including the Academic Senate, the California State Student Association, campus provosts, vice presidents for Student Affairs, and the campus vice presidents for Administration and Finance. In addition, representatives from the task force met with the Systemwide Budget Advisory Committee, the state legislature and the Department of Finance, as well as the Council of Presidents. To ensure the broadest possible review, copies of draft reports were also published on the CSU website at www.calstate.edu/financial-future/phases/, allowing an opportunity for public feedback.

As the final step in the consultative process, the draft report was presented at the January 26, 2016 meeting of the Committee on Finance. Comments received during the presentation of the draft report have been incorporated in the final report.

Implementation

The report included nineteen recommendations. Some of the recommendations require further exploration and analysis by subject matter experts at the campuses and the Chancellor's Office. In some cases, the task force suggested the formation of workgroups to more fully analyze and develop recommendations and to provide more specific implementation plans.

The schedule and key milestones for implementation of many recommendations will be provided during the presentation to the Committee on Finance.

A Financial Model to Support the Future of The California State University

Report of the Chancellor's Task Force for a

Sustainable Financial Model for the CSU

CSU The California State University

LETTER TO CHANCELLOR FROM THE CO-CHAIRS

The California State University (CSU) educates over 460,000 and graduates over 100,000 students each year and contributes significantly to California's economic strength and educated citizenry. The system receives over 400,000 new applications annually; students with a dream could be threatened by limited resources available to support the 23 campuses. While the legislature and governor were able to fully fund the Board of Trustees' budget request in 2015-16, K-12 education and community college funding requirements under Proposition 98, the state's new rainy day savings requirement, and growth in health and human services programs requires the CSU and the state to consider new approaches to funding the university. State general fund support should remain a primary source of revenue for the university but we must find supplemental resources and tools to address our operating and infrastructure needs.

This report proposes a series of possible actions and new tools beyond increases in general fund appropriations to support the university into the future. It is our belief that the current financial model is not sustainable in the long run and now threatens access to the high-quality education offered by CSU campuses. California's future is tied to having a well-educated workforce, and as an institution we must make sure we are fulfilling our obligation to the state and those who should have access to a college education. Even if all of the recommendations in this report are adopted, it is critical that the State of California increase its investment in the University over the next ten years to maintain educational quality, provide authentic student access, and maintain an affordable cost to students.

Over the past year, the task force has reviewed several interrelated elements that affect how our institution acquires and allocates its resources in an effort to provide current and prospective students a quality education. The report reflects our commitment to do all that we can to serve students today and tomorrow. However, it is clear that we cannot do it alone; we will continue to need ongoing investment from the state as well as policymakers' support to explore and implement other approaches and serve as partners in making sure that the future remains bright for students and the state for decades to come.

On behalf of the Task Force for a Sustainable Financial Model, we respectfully submit to you the proposed findings and recommendations that are designed to ensure access to a high quality education for Californians.

Sincerely,

Elliot Hirshman	Leroy Morishita	Steve Relyea
President	President	Executive Vice Chancellor/CFO
San Diego State University	California State University, East Bay	California State University

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SUMMARY

The California State University has existed as a single publicly-funded, publicly-minded system for 55 years. In that time, more than 3 million alumni have earned a quality CSU degree – a degree of high academic standards and applied demonstration of learning. The university system empowered people from every region and community of this state. These alumni have gone on to drive one of the world's most dynamic innovation economies, while breaking cycles of poverty and producing generations of civic leaders.

Between 2008 and 2011, the CSU faced an existential threat. Within a four-year period, the state cut public funding to CSU by $1 billion – or a third. As a result, the university was forced to take drastic actions, including furloughs, administrative and staff layoffs, deferred repairs and replacement of building and equipment, and tuition increases. Even as the university became more cost efficient and effective to soften the burden, these four years radically realigned the role of the state and students in funding higher education.

The CSU has continued to serve a growing student population even in the face of the dramatic reductions in state support. During fiscal year 2008, before the most recent budget cuts arising from the recession, the CSU served 368,424 full-time equivalent students and received $2,970,515,000 from the state for operations. In fiscal year 2015, the level of state support was $2,762,018,000 or $208,497,000 below the level provided in 2008 even though the CSU served 382,231 full-time equivalent students—an increase of 13,807 FTES. Compared to 2008 the CSU served four percent more FTES annually while state support remained seven percent lower in 2015 than in 2008. Greater and greater student access with less and less state support is not a sustainable approach for the CSU or California.

Today, we continue to see the traditional role of the state change. Most notably, the burden for facilities repair and replacement has shifted from the state to the university. And the CSU continues to face a $2.6 billion backlog of deferred maintenance as a result of past funding constraints. Simultaneously, experts at the Public Policy Institute of California (PPIC) project a shortfall for the state of 1.1 million educated workers with bachelor's degree by 2030.

The state took an important step toward the future by fully funding the trustees' requested budget for 2015-2016, which will begin to slowly increase state support per full-time equivalent student, even while CSU funding levels remain well below historic levels. The CSU will continue to work with the governor and legislature to build on this investment. Yet, state funding alone is not likely to meet the need identified by the PPIC with appropriate quality and adequate/safe facilities. This report presents options – perhaps best viewed as a menu of prompts for further development – to sustain the CSU as it meets the demand of California's economy and society, while preparing for the possibility of unstable state resources in the future. However, it is important to stress that even if all of the recommendations in this report were adopted, it remains critical that the state invest more resources in the CSU than it is investing today. To do otherwise will lead to untenable conditions of decreasing access and educational quality, and increasing costs to students.

The tables below summarize recommendations presented in this report to sustain the CSU into the future.

Supporting a Quality Education	**Administrative Effectiveness**	**Resource Allocation**
• Expand research funding • Advance English and mathematics preparation • Formalize applicant redirection • Continue to build data-driven decision making capacity • Consider alternative scheduling to use facilities more effectively	• Partner to revise regulations and policies to remove barriers • Improve support and infrastructure systems • Consider funding year-round operations • Pursue public-private partnerships where appropriate	• Create a direct and transparent campus allocation process • Develop allocation factors that consider student success • Implement financing authority, restructure debt, build reserves

Managing Costs	**Revenue**
• Review structure and cost of health benefit and pension programs for long-term viability • Enhance the State University Grant program • Pursue funding to replace tuition discounts with direct grants	• Strengthen advocacy effectiveness regarding our state appropriation Expand CSU’s investment authority • Increase investment and expand philanthropic giving • Consider moving from intermittent large spikes in tuition to planned small increments over time • Consider adjusting non-resident tuition rates by campus, with controls that do not displace residents

SUPPORTING A QUALITY EDUCATION

Many of the recommendations of this report, if implemented, will provide additional resources from cost savings and new revenue that can be used to enhance the quality of the educational services provided to students. Other recommendations, such as those regarding capital financing, will help improve critical infrastructure, including facility renovations, to further enhance educational quality.

The task force also considered several issues that more directly support the quality of education, including student success and the expansion of research and grants activity.

STUDENT ACCESS

There continues to be strong demand for a CSU education from high school students and community college transfers. To meet this demand and prepare the state's future workforce, we must manage our enrollment within our human and fiscal resources to ensure access to quality and affordable educational opportunities for students.

Background

California's higher education institutions face four inter-related challenges; 1) enrollment demand exceeds enrollment capacity at many public universities, 2) K-12 schools and community colleges are preparing more graduates seeking access to postsecondary education, 3) many eligible students enrolling at universities are not adequately prepared and require additional college preparatory coursework in math and English to ensure their success, and 4) public policy analyses indicate that robust economic growth will require a significant increase in the number of college graduates in California.

CSU should also remain cognizant of the need for families, students, policymakers, and our segmental partners to understand CSU enrollment policies including local admission areas, priority students (i.e. associate degree transfer students), and supplemental admission criteria.

Proposal

The CSU should support creative efforts designed to enhance preparation for college and, to the extent possible, implement a comprehensive admission redirection program to broaden admission opportunities for eligible students at one or more of the 23 CSU campuses.

Rationale

The importance of student access to success is the cornerstone of the CSU. Efforts should facilitate students' access and support their efforts to make academic progress and graduate. It is critical to explore opportunities that make student access to success the focus of CSU campuses rather than just meeting enrollment targets.

Recommendations

The task force recommends that committees and workgroups focused on CSU access and student success help specify tactics to address the following:

First, build on current efforts to reduce the need for additional English and mathematics preparation for entering freshmen, within the context of the new Common Core State Standards and new K-12 assessments. The workgroup should also explore new intersegmental strategies to further reduce the numbers of admitted students who are not ready for college level work to enhance systemwide implementation of best practices, such as current Summer Bridge and Early Start Programs, and to increase the number of students completing their college preparation work prior to beginning their coursework in the fall.

Second, develop a robust process that provides options for students who are CSU-eligible but unable to attend campuses that are at enrollment capacity. A CSU admissions redirection program would provide denied eligible students, who find their preferred campus is at capacity, with options to attend another CSU campus. The task force recognizes that many students are place-bound and it may be difficult to attend another CSU campus. A review of regional demand and local service area policies will facilitate the conversation about where and when to redirect applications and help balance enrollment demand and capacity across the system

Third, identify a set of best practices for campuses to adopt in using technology and data-driven decision making to enhance student retention and progress to degree. These new techniques can support early identification of problems, enhance advising strategies, support students who are facing challenges, and encourage students to graduate as soon as they acquire sufficient units.

Fourth, identify scheduling and online instructional approaches that maximize the use of our facilities given campus facility capacity limitations. Analysis should be done to determine to what extent these problems could be alleviated by alternative scheduling including extending the instructional week, offering a full summer term, and expansion of Friday and Saturday classes. Consideration of alternative scheduling approaches should take into account the costs and benefits of space utilization, faculty and administrative staffing, utilities, infrastructure, and maintenance needs.

RESEARCH AND GRANTS

Background

The CSU generates over $500 million of federal, state, local, and nongovernmental grants and contracts each year to support faculty who conduct substantial research, scholarship, and creative activities, often in collaboration with students and in support of the CSU undergraduate and graduate instructional mission. Undergraduate research is a key "high-impact" educational practice, and is a growing part of CSU undergraduate education programs. CSU faculty members are outstanding scholars in their disciplines, and provide significant mentorship to support the research, scholarship, and creative activities they undertake with their students. Much of the undergraduate research conducted at the CSU is focused on regional and community needs, supports students' professional advancement, and constitutes an important driver for curriculum renewal and innovation.

Proposal

Opportunities exist to increase funding available for research and in particular directed research, which is a critical aspect of the CSU's mission. CSU campuses should be encouraged to continue to pursue research, scholarship, and creative activities responsibly and consistent with campus mission and goals, taking into consideration the support costs and requirements of these programs, through sharing of best practices, further investment in critical infrastructure, faculty development, and inter-segmental partnerships, among others.

Rationale

The expansion of opportunities to engage in research, scholarship, and creative activities will generate additional resources to enhance academic quality, student engagement, and promote new knowledge.

Recommendations

The task force recommends that the Office of Research Initiatives and Partnerships at the Chancellor's Office collaborate with campus Research and Sponsored Programs offices to identify and implement strategies designed to expand funding opportunities from federal, state, local, and private entities to support the CSU's mission regarding research, scholarship, and creative activities.

ADMINISTRATIVE EFFECTIVENESS

CSU campuses consistently rank among the nation's most effective higher education institutions thanks to the academic rigor applied by faculty and administrative efficiencies that have helped to save and avoid significant costs. However, in order to preserve the quality of education, CSU must consider alternative solutions to increase its effectiveness. It must pursue policy and regulatory changes that increase the institution's financial flexibility, evaluate advancements in tools and software for its administrative functions, make better use of facilities to maximize enrollment capacity, and consider increased use of public-private partnerships to advance its capital program and mission.

POLICIES AND PROCEDURES

Background

Over the past ten years the CSU has evolved significantly away from the state agency fiscal structure. Before this change, the Board of Trustees was limited in its authority to develop their own fiscal policies or establish financial management procedures. Since the implementation of the revenue management program in 2006 allowing the CSU to collect and retain student tuition, the CSU has a greater ability to respond to changing financial conditions, but additional improvements are required. Examples of the requirements that should be reviewed include investment limitations imposed by the California Government Code; state approval of leases of roofs for cellular service rentals, which can take up to a year to process; claim schedules required by the State Controller for some capital outlay projects; sale of CSU surplus property must follow the state annual surplus property bill conducted through the Department of General Services; multitude of periodic reports filed with the legislature and state departments affecting almost all areas of the University; and regulation of CSU vehicle purchase and replacement by the Department of General Services.

Proposal

Changes should be considered to the California Education Code, the California Code of Regulations, and CSU policy that currently constrain effective campus financial and operational management. Proposed changes should provide campus leadership with the tools and flexibility necessary to achieve the mission of their campus.

Rationale

To fulfill our mission of providing highly valued degrees to the top one-third of the state's high school graduates and transfer students, it is the CSU's obligation and desire to operate as effectively as possible. Accordingly, CSU must be provided the financial tools to achieve the educational objectives of the state.

Recommendations

The task force recommends that a workgroup be appointed to review California codes and regulations, as well as all CSU policies and procedures with a financial or operational impact and recommend changes to the chancellor for consideration. In some cases, proposed changes may require action by the

Board of Trustees. A comprehensive evaluation is critical to assure that the resulting recommendations strive to remove bureaucratic regulations and impediments regarding all aspects of the CSU's financial and administrative operations.

IMPROVE ADMINISTRATIVE SYSTEMS

Background

Fifteen years ago the CSU set out to achieve a target administrative systems environment to improve its performance standard for administrative functions and to provide efficient and effective services to students, faculty, and staff. That environment was designed to perform administrative functions in concert with a common set of best practices, support administrative functions with a shared suite of application software, and operate the administrative software suite as a shared service.

Proposal

There have been significant improvements in application software support and hardware operating environments since the original vision 15 years ago. The time has come for the CSU to explore and evaluate advancements that will improve administrative services and manage the inevitable cost increases associated with the maintenance of the current software and hardware support.

Rationale

The CSU has implemented, maintained, and utilized the Common Management System (CMS) to manage its human resources, financial, and student information requirements as well as successfully operated CMS as a shared service. However, full achievement of best practices—the first and most important objective—has not been fully realized.

Recommendations

The task force recommends the chancellor charge separate workgroup(s) to evaluate and develop a set of recommendations on: existing and potential improvements in applications software and hardware support that can enable better administrative services while containing or reducing costs; cost reduction strategies in the areas of strategic procurement, multi-segment collaboration, and network infrastructure; current statutes and regulations that restrict efforts to reduce energy consumption and costs, and becoming more self-reliant with conventional and renewable energy sources; and, cost reduction strategies in the area of library management systems.

MAXIMIZE USE OF FACILITIES

Background

Summer session programs have been very successful at several CSU campuses; however, other campuses struggle to offer a robust summer term using a traditional summer-session model. Currently, five campuses offer state-supported summer session programs, down from the all-time high of 19 campuses in 2003-04. There are many reasons for contraction of state-supported summer programs, but a common and significant reason was the loss of significant state resources during recent recessions. For those campuses evaluating a move toward year-round operations, the endeavor could be a responsible and effective approach to serving the CSU's mission to educate students in a timely manner.

Proposal

The CSU should seek additional state funding to increase enrollment generally and to further support those select campuses with demonstrated capacity that choose to explore implementing a fully state-supported year-round calendar.

Rationale

Significant efficiencies can be gained through year-round operations with the full utilization of facilities including housing, classrooms, labs, food service centers, and recreational facilities during the summer months. Furthermore, implementing full year-round operations on select campuses could become an important vehicle to expand enrollment, provide increased access, and promote timely progression to graduation. Benefits could include flexible scheduling options for students, increased year-round employment opportunities for students, faculty, and staff and the opportunity to serve greater numbers of students. The economic impact on the local communities would also be significantly enhanced.

Recommendations

The task force recommends that campuses and the system explore the viability of year-round operations on select campuses and address issues such as faculty hiring and deployment processes, the application and admission process, and financial aid across the full college year. In addition to operational considerations, campuses will need to re-envision campus culture and academic pathways to promote student success under the year-round model. Such change must be accomplished in partnership with faculty and within the framework of the collective bargaining environment. Year-round operations may be an optimal forward-looking path for some CSU campuses.

Enrollment growth achieved through year-round operations should not come at the expense of growth for other campuses following the traditional academic-year model and the state should provide supplemental enrollment growth funding to support expansion of the summer term.

PUBLIC PRIVATE PARTNERSHIPS (P3)

Background

Public-private partnerships, often referred to as P3, have been employed successfully by the CSU for many years. As capital funding continues to present challenges, the use of public-private partnerships offers additional methods to provide necessary services, facilities, and opportunities to generate revenue. In concept, a public-private partnership represents a contractual arrangement between the CSU and a private sector entity. Through this agreement, the skills and assets of each sector, public and private, are shared in delivering a service or facility for use by the CSU. In addition to the sharing of resources, each party shares in the potential risks and rewards.

There are potential risks associated with public private partnerships including: the loss of flexibility and control, liability exposure, increased financing costs and developer fees, the need to achieve an expected rate of return on investment, increased transaction time for negotiation and development of legal documents, and greater possibility for unforeseen challenges. To minimize and mitigate these risks, Executive Order 747 provides important policy guidance regarding the process to consider, approve, and implement public-private partnership projects. In addition, campuses are responsible for ensuring that appropriate governance and consultation occurs to properly evaluate and consider benefits and risks associated with public-private partnership projects.

The use of public-private partnerships for the delivery of student housing, parking, research park, sport facility, retail, renewable energy, and recreation center projects has proven to be effective and beneficial on many campuses. Other projects have included a local municipality, which can enhance land utilization, or provide tax benefits from a public-public partnership. Recent examples of successful public-private partnership projects in the CSU include:

- California State University, Dominguez Hills: Stub Hub Center (formerly Home Depot Center)
- California State University, Los Angeles: Hertzberg-Davis Forensic Science Center
- California State University, Los Angeles: County High School of the Arts
- California State University, Fresno: Campus Pointe
- California State Polytechnic University, Pomona: Innovation Village

Proposal

The various forms of public-private partnerships can offer campuses additional resources to deliver needed projects and generate revenue and should be pursued where the opportunity exists. Campuses are increasingly turning to partnerships as an alternative financing and delivery method for the implementation of academic facilities which may not be achievable under current funding parameters.

Rationale

Public-private partnerships offer many benefits to be considered as campuses evaluate a proposed project. Value for money is an important tool used to assess the relative costs and benefits of alternative options available for selection of a potential public project. The transfer of the financing risks for a project may also be beneficial by shifting the fluctuations in financing costs as well as estimated and actual inflation costs to the development partner. In addition, the inherent risks associated in a design and construction project may be mitigated with emerging project delivery models that may allow the transfer of risk during a building's entire life cycle.

In addition to capital project delivery, public-private partnerships can generate various revenue streams to support operations as well as financing opportunities. Ground leases can provide a stable income stream while retaining property ownership and may also include a monetization strategy to provide institutions with substantial cash infusions, improved balance sheet performance, or a needed campus asset. Private sector space leases in mixed-use university facilities provide another source of revenue and can help support fixed costs associated with capital development.

Recommendations

The task force endorses increased consideration and use of public-private partnerships to advance the CSU's mission, with careful attention to potential risks, meaningful consultation, and campus governance policies, as well as compliance with systemwide policies. In challenging times and with limited resources, public-private partnerships provide tested alternative tools to deliver facilities, generate revenue, and potentially transfer some project risks to private partners. The success of public-private partnerships depends upon a sound business plan with realizable revenues, a committed and knowledgeable team of personnel, and senior leadership to support its purpose in meeting institutional objectives.

While the task force reached general consensus on this recommendation, one member was cautious about the involvement of private profit-driven entities in campus development activities, which may conflict with the educational mission of the campus.

RESOURCE ALLOCATION

The CSU support budget has two primary funding sources: state general fund appropriation, which is provided by the state legislature and governor, and tuition and fees, which are paid by students and their families. With severe budget cuts in the past decade and tuition freezes in effect since 2011-12, the CSU must continue to creatively and strategically manage the allocation of all of its available resources.

INTERNAL ALLOCATIONS FOR ENROLLMENT

Background

The CSU is a large and complex organization. There are many and sometimes competing interests and obligations that must be balanced so that the system's overall contribution to the state and service to students is as valuable and responsive as possible. Consequently, the balanced allocation of internal resources to meet these needs is critical to CSU's success. The past budget allocation methodology for enrollment growth, while responsive to the environment in which it was developed, no longer adequately serves CSU's current financial imperatives.

Proposal

The internal resource allocation methodology should be modified to distinctly and directly address the funding of enrollment growth, and should focus on the allocation of new dollars for the express purpose of instructing and supporting a greater number of students.

Rationale

The new method should foster transparency and predictability regarding the revenue associated with enrollment growth. It should limit unexpected swings in budget allocations and provide appropriate incentives for campuses to generate additional revenue. The task force recognizes that enrollment growth is only one factor driving cost increases (others include compensation, student success, and mandatory costs), and that there will be a need for tailored budget adjustments among campuses (e.g., support for infrastructure growth at developing campuses) and that these adjustments may affect funding available for enrollment growth and other allocation categories.

Making such allocations separately and transparently will enhance predictability and campus planning. There are, of course, many additional issues associated with enrollment management, which are discussed elsewhere in this report.

Recommendations

The task force recommends that the chancellor modify the internal resource allocation methodology to address the funding of enrollment growth in a direct and transparent manner. Ideally, a fixed dollar amount should be allocated to campuses for every additional full-time equivalent student (FTES) and allocations for enrollment growth should not be reduced as other revenue sources grow. As a separate part of the allocation methodology, the chancellor may allocate additional funds to support specific needs of campuses to address financial or physical infrastructure challenges.

CAPITAL FINANCING

Background

Until 2014, the state paid for CSU academic buildings and infrastructure, either directly or by issuing general obligation and State Public Works Board lease revenue bonds. State funding for academic and core infrastructure capital projects declined dramatically over the past decade and fundamentally changed with the legislature and governor's approval of new capital financing authorities for the CSU in June 2014. Specifically, responsibility to pay principal and interest on state general obligation and State Public Works Board bonds issued for past CSU capital projects shifted permanently from the state to the CSU. Although the state appropriated additional general funds to the CSU to fund the existing principal and interest payments, no additional funding was provided to deal with future capital costs. The state may provide additional capital support in the future, but currently there is no commitment to support what has historically been a responsibility of the general fund.

Going forward, costs associated with construction and renovation of academic buildings and infrastructure will be the responsibility of the CSU, similar to the CSU's responsibility for many decades to construct and renovate facilities such as student housing, student unions, parking, and other "self-support" activities that are not supported by the state general fund.

The CSU now has sole responsibility to prioritize, plan, finance, and construct facilities located on each of the 23 campuses using existing revenue sources to support capital debt financing. The CSU must develop ways to utilize existing state appropriation, tuition, or other revenue sources to address over $2.6 billion-worth of current deferred maintenance and approximately $6 billion-worth of key infrastructure projects already proposed.

The new capital financing authority provides the CSU with significant opportunities to control its own destiny. However, the new capital financing authorities depend on revenue streams that are already fully committed. While opportunities for revenue generation and resource redirection exist, these potential approaches will not provide the CSU with sufficient revenues to fund ongoing operations and meet all of its capital needs, at least not in the near to medium term.

Proposal

Debt capacity is a strategic resource and must be managed on a systemwide basis to ensure that the CSU is able to balance operating and capital demands to meet the most critical campus needs. The CSU has the opportunity to provide incentives to expand the number of projects funded by encouraging campuses to identify sources that have not previously been used to fund capital projects and use designated reserves to fund deferred maintenance components of major renovations or replacement projects. The CSU should communicate clearly the application of systemwide priorities to the long list of critical capital outlay needs so that we appropriately balance financial resources, debt capacity, and local capital project priorities

Rationale

In order to fully maximize the new authorities, the CSU must fundamentally change the way it thinks about, prioritizes, and allocates all of its available resources — especially those revenues that have historically only been used for operating purposes such as state general fund and tuition and fees.

Recommendations

The task force makes the following recommendations with regards to the CSU's operating budget and capital program needs.

1. CSU policy should acknowledge the new capital financing authorities and the impact on operating revenues by providing each campus with the flexibility and authority to allocate available resources to meet its operating and capital needs. CSU policy should allow each campus to establish the priority of its needs, within the broader mission priorities established by the Board of Trustees.

2. In consultation with key stakeholders including students, faculty, and the state, the CSU should pursue ongoing and one-time state funds, as well as future general obligation bonds with debt service paid by the state general fund. The task force deliberated on possible solutions in the event that additional state support is not provided for capital needs, including consideration of a capital facilities fee to sustain safe and adequate facilities. While additional capital funding is critical, as a result of consultation with faculty, students, and legislative representatives, the task force determined that the recommendation to consider a future capital facilities student fee was inconsistent with the principles of state-funded public higher education. Passing the cost along to students puts pressure on affordable access to a high quality education. The buildings that make up the CSU were built by the state and should be maintained by the state for future use by California students. As a result, the task force decided not to recommend further consideration of a capital facilities student fee.

3. CSU policy should require that each campus contribute funding towards the cost of campus capital projects in an amount at least equal to an established minimum percentage for each project, taking into consideration specific campus circumstances and project characteristics.

4. CSU policy should require that each campus set aside cash reserves annually, over and above the amount needed to meet debt service payments, to support such debt service payments in an amount at least equal to an established minimum percentage of annual debt service.

ALTERNATIVE MEASURES FOR ALLOCATION OF FUNDS

Background

Historically the state has partially funded the CSU, and the Chancellor's Office has made allocations to campuses, based in part on the number of full-time equivalent students CSU campuses enroll. More recently, however, drastic reductions in state general fund revenues have made it more difficult for the system to increase student access while maintaining quality. In addition, state and federal expectations regarding "outcomes", such as time-to-degree, are gaining attention.

Proposal

The CSU should consider alternative allocation methodologies in addition to enrollment growth. One proposed alternative is to allocate a small portion of the annual budget based on a set of student success and completion measures. Selected measures must take into account the context of the CSU mission, guidance from the Board of Trustees and the chancellor, and individual campus circumstances. The entire CSU budget should be evaluated while considering alternative allocation measures, not just the incremental annual state general fund support appropriation. If successful, over time a growing portion of the annual budget could be allocated using the selected alternative measures.

Rationale

Many higher education institutions across the country already allocate funds based on student success and completion measures. Federal and state demands for greater accountability as well as continued public interest in higher education outcomes suggest strongly that the CSU should more closely connect resource allocation and measures of achievement.

Recommendations

The task force recommends that the CSU consider additional measures for funding and that the chancellor direct committees and workgroups to further analyze and develop a set of potential student success and completion measures. The workgroup should ensure appropriate faculty and student input and should consider the following:

1. Allowing campuses with different missions to be measured according to different standards and focus on improvement of selected measures rather than achievement of a systemwide standard.

2. Ways to support and encourage campuses that struggle with a measure.

3. Unintended consequences of measures that may steer the CSU from its core mission.

4. Including measures to incentivize institutions that graduate low-income and traditionally underrepresented student populations.

5. Supporting academic quality by incorporating student-learning measures.

6. The appropriate level of funding that should be committed each year to such measures.

7. Facilitating broader comparison by using Integrated Postsecondary Education Data System (IPEDS) data or other national sources.

8. Maintaining focus on the goal of improving college completion.

9. Enrolled time to degree as a better measure of student achievement while also quantifying in real terms the actual impact of students’ attendance patterns.

10. An implementation timeline allowing for development, data gathering and analysis.

MANAGING COSTS

The state budget allocation to the CSU has increased over the past two years and we are making progress toward recovery from the dramatic reductions in state support resulting from the last recession. However, even with the increases in general fund support, discretionary resources are limited due to the rapid increase in mandatory costs. Paramount among these are health care premiums, pensions costs, and increases in the "cost" or foregone revenue of the State University Grant program.

HEALTH PREMIUMS AND PENSION BENEFIT COSTS

Background

Mandatory costs incorporated in the annual operating budget plan include inflationary increases, operating costs associated with new space, as well as employee benefits, which totaled over $1.5 billion in fiscal year 2014-15. Health care premiums and pension contributions paid by the CSU made up 80% of these costs accounting for over $1.2 billion. These costs are large, growing by 41% over the past three years representing a $350 million increase in operating expenses. Not only are costs increasing rapidly, beginning in 2014-15, the state stopped funding the full cost of CSU pension benefits, freezing the state's obligation to adjust funding based on annual rates established by CalPERS at the level established in 2013-14 for pensionable payroll. Going forward, the CSU bears the full cost of pension benefits for employees hired after July 1, 2014, representing a significant departure from past practice.

Proposal

Mandatory costs associated with health care premiums and retirement contributions will continue to grow and reduce funding available for other critical needs. The CSU should evaluate all cost categories with particular attention to the structure of health and pension programs to ensure that adequate resources are available to fund costs over the long term. In addition, a comprehensive review of ongoing operating costs may identify opportunities for savings that can be redirected to other priority areas.

Rationale

The state has shifted responsibility for aspects of the existing retirement program to the CSU and health care premiums are projected to continue to increase beyond expected growth in revenue.

Recommendations

The CSU should conduct a comprehensive assessment of all major cost categories, including an evaluation of the structure and cost of health care and retirement programs within the context of a total compensation strategy to ensure the long-term viability of these programs relative to the overall financial condition of the CSU.

STATE UNIVERSITY GRANT ALLOCATION PROCEDURES

Background

The State University Grant program was designed to provide critical institutional financial aid to students with demonstrated financial need. Last year, over 131,000 or 30 percent of students enrolled in the California State University received State University Grants, representing over $644 million of foregone revenue across the 23-campus system. This institutional commitment to affordability represents an important tenet of the CSU and additional state support will be required in the future as demand for a high-quality CSU education increases.

The practice of tuition discounting—charging different students different prices for the same educational opportunities—is a long-standing technique of private and, more recently, public higher education institutions. Discounts to published tuition and fee rates are most often provided to students with the least ability to pay.

The CSU discounts state university tuition through the State University Grant program, which reduces tuition for students based on financial need determined by the federal financial aid methodology. The amount budgeted for tuition discounts represents tuition that will not be collected from students who receive State University Grants.

The cost of State University Grant tuition discounts has grown dramatically, based in large part on the tuition increases required to offset declining state support during the recession. For 2014-15, the program cost of over $644 million in tuition discounts was almost double the amount in 2008-09. This rate of growth is a significant financial commitment that reduces revenue available to the university and thus limits the CSU's ability to provide a higher quality of education.

This challenge is exacerbated by the current procedures for allocating State University Grant tuition discounts among campuses. The allocation formulae are complex; simultaneously incorporating enrollment growth, student financial need profiles, and tuition increases. This complexity makes it very difficult to identify the factors influencing the rate of growth of the State University Grant program and the year-over-year impact on campus budgets.

Proposal

The CSU should carefully review and revise the State University Grant tuition discount program to ensure that the methodology used is clear, understandable, and predictable. Furthermore, the CSU should consider the effectiveness of tuition discounts in meeting the increasing financial need of our students. The CSU and the state should also seek alternative funding to replace tuition discounts with direct grants-in-aid to students, perhaps by expanding the Cal Grant program by making additional need-based grants available to students enrolled in California public universities.

Rationale

To address this issue, the task force created models using separate calculations of the allocation of State University Grants associated with enrollment growth, changes in campuses' student financial need profiles, and tuition increases. These simplified models are fully consistent with all relevant board policy and statute. The models demonstrate that the State University Grant allocations rely on discretionary parameters that affect the rate of growth of the State University Grant systemwide pool. Examples of these parameters include the rate used to allocate tuition discounts for enrollment growth and the total amount of state appropriation to be re-allocated among campuses. Currently, these parameters are set, implicitly or explicitly, by staff in the Chancellor's Office.

The short term changes recommended below should produce greater financial stability, make the State University Grant allocation process more transparent, and may slow the rate of growth of unfunded tuition discounts. The long-term recommendations envision additional approaches that will allow the CSU to enhance its financial stability while maintaining its commitment to helping financially needy students.

Recommendations

SHORT-TERM RECOMMENDATIONS

The task force recommends that the chancellor or his designee set the discretionary parameters for the State University Grant program as part of the budget allocation process that allows campuses, at a minimum, to continue to meet existing student financial need.

LONG-TERM RECOMMENDATIONS

The task force recommends the Chancellor's Office monitor the rate of growth of tuition discounts from 2015-16 to 2017-18. During this period, the Chancellor's Office should review and consider approaches for identifying funding sources for the program, including expansion of the Cal Grant Program to provide additional need-based grants to students. If such sources cannot be identified and the rate of growth of tuition discounts is not slowed, more significant changes in the program, possibly requiring changes in Board of Trustees' policy, should be considered, including renaming the program to more accurately describe the use of tuition discounts rather than grants-in-aid.

REVENUE

Student tuition revenue and philanthropic giving now comprise a significant portion of the total operating budget. As a result, the management of this revenue has become more important to the financial stability of the CSU.

EXPAND CSU'S INVESTMENT AUTHORITY

Background

As described earlier in this report, responsibility for the annual principal and interest on state general obligation and State Public Works Board bonds that have been issued on behalf of the CSU have been shifted from the state to the CSU on a permanent basis beginning with 2014-15. Although the state increased the CSU's support budget to address this shift, the augmentation is not sufficient to support new capital funding to address the CSU's deferred maintenance, critical infrastructure, renovation, and new construction needs. In order to appropriately address capital requirements, the CSU must find new revenues to support new capital funding. Investment earnings are one potential source of revenue.

Currently, the CSU may only invest funds in fixed-income securities authorized by the California Government Code, which have historically generated lower investment returns compared to the returns of balanced portfolios that diversifying investment risk over a broader array of asset types.

In addition, recent developments regarding environmental, social, and governance criteria applicable to institutional investment policies and CSU's leadership role regarding the advancement of these principles as they apply to CSU investment policies would benefit from additional flexibility regarding investment opportunities beyond that provided by the California Government Code.

Proposal

The CSU should consider options to expand authority to prudently invest funds in a manner that allows the CSU to generate additional revenues that can be used to help reduce deferred maintenance, meet critical infrastructure needs, and respond to evolving environmental, social, and governance investment principles. The options should allow the CSU to invest in a broader range of asset classes would enhance the system's ability to appropriately exercise fiduciary responsibilities to achieve an appropriate return that helps protect the CSU from inflationary pressures.

Rationale

The CSU can generate additional investment revenues to help meet capital needs, and reduce the amount that may be sought from the state or students. This broader authority is consistent with the goal of giving the CSU greater autonomy and responsibility in making decisions on how best to utilize its limited resources and manage risks in meeting its educational mission.

Recommendations

The task force recommends the CSU seek legislative changes that will expand its investment authority, establish an investment advisory committee to the board and enhance investment performance reporting. Furthermore, the task force recommends that the CSU incorporate environmental, social, and governance principles as part of its investment policy.

While the task force reached a strong consensus on the recommendation to expand CSU's investment authority, one member expressed concern that broadening investment options may result in a loss of principal and expose the CSU to inappropriate market risk.

THE CRITICAL ROLE OF PHILANTHROPY

Background

Philanthropic support is not a replacement for state support. The state provides critical base funding for permanent core operations. However, philanthropy provides significant resources that enhance quality and expand opportunity. These include funds for academic innovation, cross-system collaboration, statewide expansion of best practices, exploration of scientific frontiers, the application of discovery across disciplines, and scholarship.

The CSU should also be poised to realize high-value philanthropic gifts connected to capital opportunities made possible through expanded financing authority. Yet, CSU advancement staffing and infrastructure lag many private non-profit institutions and the University of California. Investment continues to be necessary to grow philanthropic support that benefits students, alumni, faculty, staff, and the community.

Proposal

CSU campuses should further invest in university advancement, alumni engagement, and community relations in order to increase philanthropic support for the CSU mission.

Rationale

The return on investment in philanthropic infrastructure and cultivation activity is substantial. Every dollar invested in CSU advancement returns six dollars in new funds. In 2014-2015, the CSU received more than $314 million in gifts that included support for student scholarships, academic enrichment, research, capital improvement, public service programs, athletics, and other priorities. Comparisons with other educational systems and non-profit institutions suggest that campuses could expand their philanthropic productivity. Making this point, several CSU campuses have achieved successive fundraising records in recent years as a result of increased sophistication in their advancement programs.

It is critical that the CSU reinforce its efforts to develop closer relationships with students, before they arrive on campus, while they are in school, and after they graduate. As the CSU succeeds in its completion efforts, the number of alumni will grow at an increasing rate. This presents both an opportunity for engagement and an increased demand for alumni services. To be effective at cultivating alumni relationships, the CSU must develop multiple strategies that are segmented to provide value to alumni of different age groups and at different stages in their careers.

Additionally, philanthropic activities require identifying educational, civic, and business leaders who are committed to the CSU mission and interested in addressing regional needs. The CSU can also add value by providing tools, facilitating the adoption of best practices, and sponsoring training at the system level.

Recommendations

The task force recommends that the CSU develop strategies to increase its investment in alumni, corporate and foundation relations; to focus on the support of quality programs and facilities; and to increase applied learning opportunities.

TUITION MODEL

Background

Creating a sustainable approach to tuition in California has been a significant challenge. Historically, there have been many years in which tuition did not increase. For example, fiscal year 2016-17 will be the fifth consecutive year without a tuition increase in the CSU. Conversely, there have been years in which tuition has increased dramatically, by as much as 40 percent. Both approaches are problematic.

Extended periods without tuition increases are not sustainable without increases in state appropriation to support operations including mandatory costs, enrollment growth, and now capital outlay needs. This is because the university faces inflationary cost increases each year such as health care, retirement, facility and construction, library materials, energy, salary, and others.

While the university continually strives to increase productivity and reduce costs, most inflationary costs are set by third parties or through contractual negotiations with represented employees and are outside the university’s full control. Given limitations in state funding, the impact of inflation means that the university’s costs will significantly exceed its revenues without tuition increases. This financial instability, over time, results in reductions in quality and large, unexpected tuition increases.

Dramatic and unexpected tuition increases are especially problematic and make it impossible for students and their families to financially plan for college expenses. This also creates affordability inequities when similarly situated students pay dramatically different tuition amounts based on state fiscal conditions in place at the time they attend college.

Proposal

In consultation with stakeholders including students, faculty, and the state, the CSU should consider predictable and incremental adjustments to tuition and fees that maintain purchasing power in the face of inflationary increases over time. The task force focused on systemwide tuition and fees in the development of this proposal and did not consider campus-based mandatory fees, including student success fees, which were addressed in an earlier report and resolutions by the Board of Trustees at the January 27-28, 2015 meeting.

Rationale

When combined with increases in state general fund, modest tuition increases ensure the CSU's academic quality and fiscal stability. Small, planned tuition increases will allow students and their families to budget appropriately. The State University Grant tuition discount program will continue to ensure affordability and minimize impact on financially needy students. This additional revenue combined with annual increases in state general fund will contribute to the CSU's financial sustainability, supporting quality educational opportunities and predictable expenses for students and their families.

Recommendations

The task force recommends that the Board of Trustees annually consider enacting small, systemwide tuition increases designed to maintain the purchasing power of the revenue collected and mitigate future large, unplanned tuition increases in response to state budget reductions in the face of economic uncertainty. Coupled with significantly increased general fund investment by the state, including identification of new dedicated revenue streams, small increases in tuition will improve the ability of the CSU to provide affordable access to a high-quality education for a growing number of students. This recommendation is not intended to result in automatic tuition adjustments but rather an annual review of tuition rates by the Board of Trustees in conjunction with development of the annual budget.

MARKET BASED NON-RESIDENT TUITION RATES

Background

CSU campuses can best serve students when they have the resources and flexibility to act on unique campus priorities and goals. In this context, CSU campuses must consider new sources of revenue, which could bolster educational offerings and experiences for students. CSU remains committed to serving Californians first but it is also true that nonresident and international students have been a small part of the CSU student body for decades. Additionally, non-resident domestic and international students add to the learning environment as CSU students and faculty gain a greater understanding of the global marketplace and society.

Proposal

The task force recommends that campuses be given the authority to propose market-based tuition rates for non-resident domestic and international students. Importantly, the CSU should continue to closely monitor enrollment of nonresident and international students to ensure their numbers do not increase disproportionately to California students.

Rationale

Revenue raised from this source will vary across campuses due to differing strategic non-resident domestic and international enrollment opportunities and goals. In addition, the tuition rates the market can bear will vary from campus to campus. Nevertheless, additional revenue from charging market based non-resident domestic and international tuition rates has the potential to strengthen campuses individually and the CSU system as a whole by providing new resources to support campus programs and services. An increase in non-resident tuition will provide additional revenue to increase California resident enrollment and enhance our ability to serve all students.

Recommendations

The task force recommends that the Board of Trustees and chancellor give CSU campuses the authority to propose campus-specific, market-based tuition for non-resident domestic and international students. The task force proposes that increases in these non-resident tuition rates apply to incoming students so that currently enrolled non-resident domestic and international students would not be impacted. The CSU should continue to closely monitor enrollment of nonresident and international students to ensure their numbers do not increase disproportionately to California students.

APPENDIX A. TASK FORCE CHARGE

Chancellor's Charge for the Task Force on

A Sustainable Financial Model for the California State University

October 21, 2014

Several interrelated elements influence the general fund acquisition and distribution for undergraduate and graduate instruction. These elements, viewed at a high level, include state appropriated funds, tuition fees collected, state university grants (revenue foregone), and budget allocations to campuses and the Chancellor's Office.

The current approach to budget and finance was developed over a number of years, based on the infamous "orange book" antecedent. While appropriate for the times, going forward it does not bode well for enabling the CSU to provide high quality programs with broad access by academically qualified students reflective of the spectrum of society, all at a moderate cost to students and the state of California.

The charge to this task force is to propose to the Chancellor in April 2015 a sustainable plan for the future with respect to budget allocation, revenue generation, enrollment management, and institutional financial aid policies. The system-wide recommendations are to:

- Be responsive to the mission of the CSU and to the needs of our students, California, and society in general.
- Reflect regional as well as campus specific enrollment and student needs and aspirations.
- Provide for flexibility across the system, recognizing diversity of campus educational offerings.
- Recognize special circumstances for new and/or small campuses.
- Identify revenue enhancement opportunities for some/all campuses, including national and international students.
- Modify SUG policy to create manageable 'skin-in-the-game' for all students.
- Create policies and practices on revenues including tuition that are predictable with minimal fluctuations in annual resource allocations that allow coherent planning.
- Create a phased transitional implementation plan that does no harm.

The committee will refine the work plan at its first meeting and determine if membership is adequate and if a third-party consultant is required. The task force will decide upon meeting venues (e.g., in person; video conference; teleconference; hybrid) and schedule. It will also suggest any modifications to the charge for Chancellor's approval. All necessary and reasonable costs (travel and lodging) will be borne by the Chancellor's Office.

The work of the Task Force shall commence in October 2014, and consist of two phases.

Phase one will begin by exploring the universe of issues at hand *writ large*, and if necessary refine the initial charge to a narrower, actionable focus that will lead to recommendations and an articulation of core values and operating principles. This refined charge will be reviewed by campus presidents, the statewide academic senate leadership, and leadership in the Chancellor's Office to ensure that it has broad understanding and acceptance. The Task Force membership will determine if its composition is suitable for the charge, including the possibility of retaining a third-party consultant, and if necessary make a compelling request to the Chancellor for adding an additional member or two to the Task Force.

During the second phase, the Task Force will carry out the final charge with an eye to having a draft report completed in April 2015. The draft report will be posted for broad input by any interested individuals in the CSU or from the communities we serve. The input will be reviewed by the Task Force for consideration, and the final report will be submitted thereafter.

The task force consists of colleagues across the state with demanding schedules. Consequently it is not feasible to meet in person on every occasion. And yet the work is important and will require constant attention and focus. The meeting schedule is being established by the task force convener to optimize participation of the task force members. The work of the task force is important, and I caution that progress not become paralyzed in the search of 'perfect' solutions.

The Task Force members are appointed by the Chancellor. Members will bring perspectives and experiences formed in their prior and current roles, yet they are not appointed as 'representative' *per se* of their current role and campus, but rather these colleagues are charged to serve the broad interests of the California State University.

APPENDIX B. GUIDING PRINCIPLES

The following principles articulate the framework for a new, sustainable financial model for the CSU that were developed by the task force to carry out the charge included in Appendix A.

1. Take advantage of all possible options to advance the university's financial position, consistent with the university's mission.

2. Look beyond the university's historical budget methodology.

3. Budget allocation methodology should follow the priorities of the University.

4. Budget allocations should incentivize campuses to reduce time-to-degree and achieve higher rates of degree completion.

5. The budget processes and regulatory practices should provide campuses with maximum flexibility to address each campus' highest priorities, leverage the heterogeneity of the campuses, and ensure the system has a subsidiary role to support the campuses.

6. The financial model should encourage campuses to increase funding from non-state sources such as philanthropy, third-party partnerships, auxiliaries, enterprises, grants, contracts, and other activities.

7. Recognize that all campuses must have a critical mass of size and resources to adequately serve their campus mission effectively.

8. Ensure that there is critical mass, available resources, and demonstrated need prior to consideration of opening any new campuses.

9. Grow enrollment appropriately to the extent that there are adequate resources available to support student achievement, success, and graduation.

10. Changes to the allocation methodology should be phased-in so that campuses' base budgets are not significantly reduced.

11. The financial model should minimize dramatic swings in resource allocation from year-to-year, be predictable, transparent, and allow campuses to engage in longer-term planning.

12. Financial aid policies should be examined to determine whether all students should pay a portion of the cost of their education as an incentive to make timely academic progress towards their degrees.

13. The financial model should recognize that all campuses have to support and contribute to the system as a whole.

APPENDIX C. SUMMARY OF COMMENTS

This report incorporates comments from a wide variety of faculty, students, staff, and other key stakeholders. Much of the input from briefing sessions were positive, and the comments that were critical of the draft report coalesced around four areas, which are summarized below. All of the comments and suggestions were considered by the Task Force and have been incorporated in this report.

An initial draft of Task Force report was distributed widely in September and several members of the Task Force consulted with key stakeholders within the California State University including the California State Student Association, the Statewide Academic Senate, the Council of Presidents, the Academic Council, the Chief Administrative and Business Officers, Vice President's for Student Affairs and Advancement, and others. Members of the Task Force also met with legislative staff and members as well as representatives from the Department of Finance to discuss the September 2015 draft report. In addition, the initial draft Task Force report was posted for public feedback and over 100 comments were received and considered by the Task Force.

Resource Allocation

Public comments and feedback from consultation meetings recommended that performance or outcome measures used to determine allocations should be considered carefully to ensure that they support the mission of the CSU. Some comments also warn against potential unintended consequences resulting from the use of these measures to determine campus allocations.

Capital Facilities Fee

Many of those who commented on the initial draft strongly opposed the establishment of a capital facilities fee. Opposition to a capital facilities fee was driven primarily by the view that state general fund support was the appropriate mechanism to maintain state buildings and that student fees should not be the source of funding for deferred maintenance resulting from inadequate state funding.

Financial Aid

Comments suggested that the draft report did not adequately consider the benefits of financial aid programs like the State University Grant to provide access to students who otherwise could not attend the CSU and that the draft report did not appropriately recognize the challenges faced by students who are unable to afford the cost of attendance.

Many individuals commented that one of the recommendations in the initial draft report to rename the State University Grant program would confuse students and their families.

State Support

Several comments suggested that the draft report should more emphatically express that the state should provide additional general fund support and that emphasizing savings from efficiencies and other revenue streams weakens the argument for additional state funding.

Many individuals indicated that the initial draft failed to appropriately call for substantial increased investment by the state in the CSU to improve the quality and maintain affordability of a CSU education. Comments also elaborated the point that the initial draft report failed to describe the significant reduction in state funding of the CSU representing a fundamental change in the nature of public education in California.

APPENDIX D. TASK FORCE MEMBERSHIP

Co-Chair
Elliot Hirshman
President
San Diego State University

Co-Chair
Leroy Morishita
President
CSU East Bay

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Assistant Vice Chancellor
Budget

Rodney Rideau
Deputy Assistant Vice Chancellor
Budget

Robert Eaton
Assistant Vice Chancellor
Financing, Treasury & Risk Management

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Kara Perkins
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Systemwide Budget

Brad Wells
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