

AGENDA

COMMITTEE ON FINANCE

Meeting: 2:30 p.m., Tuesday, May 24, 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
Lupe C. Garcia
Lillian Kimbell

Consent Item

Approval of Minutes of the Meeting of March 8, 2016

Discussion Items

1. Final Approval of the California State University, Channel Islands Site Authority Apartment Sales Project, *Action*
2. Conceptual Approval of a Public-Public Partnership with The Panetta Institute for Public Policy at California State University, Monterey Bay, *Action*
3. Report on the 2016-2017 Support Budget, *Information*

**MINUTES OF THE MEETING OF
COMMITTEE ON FINANCE**

**Trustees of the California State University
Office of the Chancellor
Glenn S. Dumke Conference Center
401 Golden Shore
Long Beach, California**

March 8, 2016

Members Present

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

Trustee Adam Day called the meeting to order.

Public Comments

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

Approval of Minutes

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Update on the Sustainable Financial Model Task Force Report

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

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

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

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

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

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

Trustee Day adjourned the meeting on Finance Committee.

COMMITTEE ON FINANCE

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

Presentation By

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

Richard Rush
President
California State University Channel Islands

Summary

At its November 2015 meeting, the California State University Board of Trustees approved a conceptual plan to allow the California State University, Channel Islands Site Authority (“Site Authority”) to sell 328 existing apartments and apply net sale proceeds to retire existing bond debt as part of the campus’ CI 2025 strategy, a long term plan to develop facilities such as academic facilities, housing, student support facilities, and recreation/wellness space that was presented to the board in January 2015. This item requests final approval from the Board of Trustees authorizing the Site Authority to enter into agreements to complete the sale of the apartments, as well as 58 apartments and 30,000 square feet of retail space in the Site Authority’s Town Center, and use the net sale proceeds to retire outstanding bonds.

Background

In January 2016, the Site Authority invited interested parties to participate in a Request for Proposal (RFP) process to select a qualified private developer to acquire multifamily housing units located in the Site Authority’s University Glen housing community and Town Center, and serve as a long-term operator and investment partner with the Site Authority. In February 2016, the Site Authority received three bids from qualified and interested developers. During the bid process, all three developers expressed interest in 58 apartments and retail space in the Site Authority’s Town Center, which were scheduled for a later, separate bid process. Based on these expressions of interest, the 58 apartments and retail space in the Town Center were added to the RFP. In March 2016, Kennedy Wilson (KW), an experienced multifamily housing operator and developer with strong financial capacity, was selected by the RFP selection committee as the preferred buyer to engage in a negotiating process with the Site Authority on various key business terms. The committee’s decision to award the bid to KW was based on KW’s overall financial terms, including the upfront price offer, as well as KW’s willingness to invest its own capital toward upgrading the housing assets and be a long-term multifamily housing partner with the Site Authority.

Project Description

Under the terms of the transaction, the Site Authority will sell its interests in the 328 apartments in University Glen and in the 58 apartments and retail space in the Town Center to KW for \$81,000,000, an amount consistent with the appraised value of the assets. The Site Authority will enter into a long-term sublease with KW for the land located in University Glen and the Town Center. To ensure the Site Authority receives the highest possible purchase price for the property sales and to preserve control over a certain number of housing units for campus faculty, staff, and students, the Site Authority has agreed to lease back a certain number of the apartment units under long-term agreements with KW.

Upon close of the sale escrow, the Site Authority will apply approximately \$74 million of the sale proceeds to retire CSU Systemwide Revenue Bond debt associated with the assets being sold, as well as a modest amount of debt associated with other housing assets of the Site Authority.

To keep various other stakeholders of this project updated on this transition process, the Site Authority has been meeting with the University Glen residents, campus faculty and staff, local government representatives, and other interested parties.

Summary of Key Agreement Terms

The Site Authority has completed negotiations on a ground sublease and an operating agreement with KW. Major deal terms include the following:

- A total purchase price of \$81,000,000: (a) \$68,000,000 for the 328 University Glen apartments and (b) \$13,000,000 for 58 Town Center apartments and retail space.
- Long-term ground subleases of the University Glen apartments and the Town Center for a period of 80 years, which coincides with the term of the master ground lease between the Trustees of the California State University and the Site Authority. The facilities revert back to the Site Authority upon expiration of the ground subleases.
- Annual ground sublease payment of 7 percent of gross income, which initially will be approximately \$540,000.
- Renovate all existing apartments as tenants change. The cost of these renovations will be approximately \$7,500 to \$8,500 per unit and will be fully covered by KW.
- Long-term capital improvements to shared facilities which include a clubhouse, two fitness centers, and two swimming pools; KW will be fully responsible for the costs related to these capital expenditures.
- A third party management company acceptable to the Site Authority to manage the apartments.
- A 20-year agreement with the Site Authority to lease 58 units in the Town Center in order to accommodate student housing demand. Under terms of the agreement: (i) the Site Authority will be obligated to pay KW an initial rate of \$2.00 per square foot per unit per month, which will increase annually based on the Consumer Price Index, with an annual cap of 5 percent; (ii) the campus will be responsible for leasing, collecting, and retaining rental income on these units; and (iii) KW is responsible for managing and maintaining the units and paying related operating expenses.

- A 20-year agreement with the Site Authority to lease 100 University Glen apartments in order to ensure availability for campus faculty and staff. Under terms of the agreement: (i) the Site Authority will be obligated to pay KW the initial rate of \$2.00 per square foot per unit per month, which will increase annually based on the Consumer Price Index, with an annual cap of 5 percent; (ii) KW is responsible for leasing, managing, and maintaining the units and paying related operating expenses; and (iii) all rental income from the leases will be paid to the Site Authority.

Educational Benefits

The Channel Islands campus is challenged to build critically needed facilities to accommodate enrollment growth and the community it serves during times of limited state capital resources. Through this transaction, however, the campus is well positioned to reduce debt, improve debt capacity, and generate alternative sources of revenue derived from the long-term ground sublease payments, all of which will support future capital projects and help fulfill the campus' academic mission.

Recommendation

The following resolution is presented for approval:

RESOLVED, by the Board of Trustees of the California State University, that the sale of the 328 apartments in University Glen and 58 apartments and retail space in the Town Center on the campus of California State University, Channel Islands as described in Agenda Item 1 of the May 23-25, 2016 meeting of the Committee on Finance is approved, and that the chancellor, the executive vice chancellor and chief financial officer, and their designees are authorized to execute the agreements necessary to complete the transaction.

COMMITTEE ON FINANCE

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

Presentation By

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

Eduardo Ochoa
President
California State University, Monterey Bay

Summary

This item requests conceptual approval from the California State University Board of Trustees for the development of a new building to accommodate educational studies and programs offered through The Panetta Institute for Public Policy (“Institute”) on the California State University, Monterey Bay campus.

Background

The Institute, founded in 1997 by former Secretary of Defense Leon Panetta and his wife Sylvia Panetta, has been located on the Monterey Bay campus since inception. Its programs serve the entire CSU system, in addition to providing the CSU Monterey Bay campus with a deep and important connection to, and enhanced reputation with, the local communities in the Central Coast region and throughout the state and the nation.

The Institute is a non-profit corporation offering educational opportunities and programs in government, politics, and public safety to students from the campus, across the system, and from other schools.

The campus has been providing building space and utilities as in kind consideration for the programs offered by the Institute. However, a new building is needed to allow for the Institute to expand its programming and activities to achieve greater impacts statewide, nationally, and globally.

Project Description

The project involves the construction of a new building on one of two campus sites that has yet to be finalized. The project costs and the date of completion have not been determined. The project will include classrooms, office and administrative space, a lecture forum, a library, study areas, and an area to house all or a portion of the Panetta Archives and the archives program.

The campus is expected to enter into a ground lease with the Institute at a ground rental rate of one dollar per year for a term of sixty years, subject to three successive ten year periods at the same ground lease rate and terms. The project will revert to the CSU upon expiration or termination of the ground lease.

Financing

Neither the campus nor any auxiliary will have an investment in the project. The Institute will be responsible for all financing, construction, maintenance, custodial, and management costs of the project during the term of the lease. The Institute will also be responsible for all costs associated with environmental and entitlement processes in accordance with CSU requirements. The Institute plans to pay the costs of construction and operation of the facility with funds from its own fundraising activities.

Educational Benefits

This proposed partnership with the Institute is expected to enhance ongoing support of the educational mission of the CSU through its various programs such as the Congressional Internship Program, the Student Leadership Seminar, and the Leon Panetta Lecture Series.

The Congressional Internship Program offers students from all of the CSU campuses the opportunity to gain real world experience as a Congressional intern in Washington, D.C. The Student Leadership Seminar offers student body presidents and other student leaders from across the CSU the opportunity to learn leadership principles, strategies, and practices through an intensive eight-day program. The Leon Panetta Lecture Series provides students with perspectives on national and international issues through a series of lectures by renowned leaders and policy experts.

The presence of the Institute on the Monterey Bay campus brings value in recognition of the quality of the Institute and the effectiveness of the academic merit which it has.

Approval of the Final Development Plan

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

Recommendation

The following resolution is presented for approval:

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

1. Approve the concept of a public-public partnership for the development of the Panetta Institute for Public Policy;
2. Authorize the chancellor and the campus to enter into negotiations for agreements necessary to develop the final plan for the public-public partnership as explained in Agenda Item 2 of the May 23-25 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 Institute with a limited-term option along with the responsibility for the development of a final plan, schematic drawings, and necessary environmental analyses during the option period;
4. Will consider the following additional action items relating to the final plan:
 - a. Certification of Final California Environmental Quality Act (CEQA) documentation;
 - b. Approval of a financial plan negotiated by the campus and the Institute with the advice of the chancellor;
 - c. Approval of any amendments to the campus master plan as they pertain to the project;
 - d. Approval of an amendment to the Non-State Capital Outlay Program;
 - e. Approval of the schematic design.

COMMITTEE ON FINANCE

Report on the 2016-2017 Support Budget

Presentation By

Steve Relyea
Executive Vice Chancellor and
Chief Financial Officer

Ryan Storm
Assistant Vice Chancellor
Budget

Background

The California State University (CSU) Board of Trustees approved the 2016-2017 Support Budget request at its November 2015 meeting. That budget request called for an increase of \$297.6 million, including \$241.7 million from state funds and \$55.9 million of net student tuition revenue tied to funded enrollment increases. The approved uses of the increase are as follows:

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

Governor Jerry Brown issued his 2016-2017 budget proposal in January 2016. The most significant components of this proposal for the CSU are: (1) an increase of \$140.4 million that could be used for operating and capital needs, (2) a one-time appropriation of \$35 million to address pressing deferred maintenance infrastructure needs, (3) a one-time appropriation of \$35 million of cap and trade funds for energy efficiency and renewable energy projects, and (4) broad expectations that CSU improve graduation rates more quickly, that the university adopt a funding model based primarily on student success, and that CSU continue to employ technology for more widespread student access. The first component is consistent with the governor's multi-year plan, now in its fourth year, to increase funding for higher education.

As a result of the trustees' January 2016 discussion, the Chancellor's Office has implemented an active strategy to obtain an additional \$101.3 million from the state than is proposed in the governor's budget proposal. That amount will bridge the gap between the trustees' general fund request (\$241.7 million) and the governor's January proposal (\$140.4 million).

The development of the 2016-2017 state budget began in summer of 2015 and is two months away from completion. Below is what remains:

1. The Department of Finance is anticipated to release its May Revision on May 13, 2016. It will provide updated revenue estimates for the upcoming fiscal year and will likely propose changes to the governor's January budget proposals.
2. The Assembly and Senate will independently hold their post-May Revision budget hearings and will make final decisions on the governor's and their own budget proposals.
3. The houses will hold budget hearings to reconcile differences between their budget plans to create a single budget plan.
4. The legislature will vote on a final state budget in the middle of June.
5. The governor may veto portions of the budget and approve the remainder by June 30.

Legislative Hearings

The budget subcommittees for education finance in the Assembly and the Senate have held several hearings this spring on the CSU Support Budget request, the governor's higher education budget proposals, as well as issues of particular interest to them. So far, they have focused on student outcomes, enrollment trends, compensation, state-supported summer session, and infrastructure needs.

To date, the legislative budget subcommittees have refrained from taking action on appropriation amounts for the CSU and the other higher education segments based on the expectation that the governor's May Revision will identify an altered state revenue picture for 2016-2017.

May Revision

Based on total tax collections through the month of April 2016, the Legislative Analyst's Office reports that the state may end fiscal year 2015-2016 with revenue \$1.0 billion below the January budget forecast. However, at the time this agenda item was prepared major uncertainties still existed, including:

- Forecast economic growth and estimated revenues for the 2016-2017 fiscal year.
- The extent to which the state's constitutional spending guarantee for K-12 schools and community colleges (Proposition 98) would claim state revenues.
- The extent to which state populations and caseloads will change in the corrections and rehabilitation, health, and social service program areas.

Final CSU Budget Decisions are Dependent on Final State Decisions

With final state budget decisions still to be determined, there will not be enough information to determine a final budget for the CSU by the May 2016 meeting. The governor's funding proposal is significantly less than the trustees' budget request, however the legislature may elect to augment the CSU budget. As a result, the Chancellor's Office will await final state decisions (likely to occur by June 30, 2016) before finalizing the CSU budget pursuant to resolution RFIN 11-15-11, passed in November 2015, which authorizes the chancellor to adjust and amend the support budget to reflect changes in the assumptions upon which the budget is based.

Summary

At the May 23-25, 2016 meeting, the board will receive a full update on the May Revision and any changes affecting the CSU budget. Information on the governor's May Revision will be available for review at www.ebudget.ca.gov prior to the meeting.