

## AGENDA

### COMMITTEE ON FINANCE

**Meeting:** 2:45 p.m., Tuesday, January 25, 2005  
Glenn S. Dumke Auditorium

William Hauck, Chair  
Shailesh J. Mehta, Vice Chair  
Roberta Achtenberg  
Carol R. Chandler  
Debra S. Farar  
Bob Foster  
Eric Guerra  
Raymond W. Holdsworth  
Kathleen E. Kaiser

#### Consent Item

Approval of Minutes of Meetings of November 16, 2004

#### Discussion Items

1. Report on the 2005/2006 Support Budget, *Information*
2. Evolution of the Board of Trustees Financing Programs Including the Systemwide Revenue Bond Program and an Update on the Status of the CSU's Debt Program and Debt Capacity, *Information*
3. Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for Various Projects, *Action*
4. Auxiliary Organization Tax-Exempt Financing at Sonoma State University, *Action*
5. Auxiliary Organization Tax-Exempt and Taxable Financing at San Diego State University, *Action*

**MINUTES OF THE MEETING OF  
COMMITTEE ON FINANCE  
Office of the Chancellor  
Glenn S. Dumke Conference Center  
401 Golden Shore  
Long Beach, California**

**November 16, 2004**

**Members Present**

William Hauck, Chair  
Carol R. Chandler  
Debra S. Farar  
Bob Foster  
Murray L. Galinson, Chair of the Board  
Eric Guerra  
Raymond W. Holdsworth  
Kathleen E. Kaiser  
Charles B. Reed, Chancellor

**Approval of Minutes**

The minutes of September 14, 2004 were approved.

**2004/2005 Student Fee Report**

Trustee Hauck explained that the CSU student fee policy requires that an annual campus student fee report be presented to the Board of Trustees to allow the board to consider the level and range of fees charged to CSU students.

Mr. Patrick J. Lenz, assistant vice chancellor, budget development, presented the report. He explained that summary tables in the report identify the year-to-year comparison of undergraduate, graduate, and non-resident fees, as well as the California Postsecondary Education Commission (CPEC) data comparing CSU fees levels with 15 of its comparison institutions.

After a discussion on the report, trustees Holdsworth and Esparza asked for additional information on the history, development, and structure of the CSU fee policy to assist them in future discussions and decision-making efforts related to student fees. Mr. Lenz assured the trustees he would provide them with the requested information.

**Approval for a Real Property Acquisition and Purchase of a Student Housing Project and for the Issuance of Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments**

Mr. Dennis Hordyk, assistant vice chancellor, financial services, presented the item. He explained the item requested the board to approve the purchase of a student housing project constructed by a private developer on private land located across the street from the CSU, San Bernardino campus, and to authorize the issuance of Systemwide Revenue Bonds and interim financing under the CSU's commercial paper program in an amount not to exceed \$30,335,000.

Mr. Hordyk reviewed the history of the project and the terms of the financing structure as outlined in the written agenda item.

Topics of concern and questions about the project were addressed during discussion of the item.

The committee recommended approval of the proposed resolution (RFIN 11-04-10).

**Expanded Phase of Public/Private Partnership at California State University, Dominguez Hills with the Anschutz Southern California Sports Complex, LLC**

Mr. Hordyk explained the item concerned a request for approval for expansion of an existing public/private partnership with Anschutz Southern California Sports Complex (LLC) (ASC). The project will entail development and construction of a conference center; a 200-room hotel; a 60,000 square foot athletics training center/office complex, a 50,000 square foot field house/training center, and a 240-bed dormitory facility. The project will be located on a 5-acre parcel currently leased to the Anschutz Entertainment Group (AEG) and is used for surface parking. Along with the new facility, Anschutz will provide annual financial consideration and pay for the construction of additional parking for the campus.

Mr. Hordyk explained the developer will fund all costs associated with the project and that no debt would be incurred, nor impact made to the trustees debt capacity. He cited numerous advantages to the campus resulting from the expansion project including; student internship opportunities, increased revenue to the campus from hotel and conference facility rentals, food and beverage sales, and parking fees.

President Lyons clarified that the purpose of the item was to approve the concept of the project only at this time.

Chair Galinson expressed concern about there being adequate parking to accommodate the expansion plan. Chancellor Reed and President Lyons explained the details of the plan and assured Chair Galinson there would be ample parking available for students, faculty and staff. Chancellor Reed and Trustee Pierce separately acknowledged that the proposed expansion plan would be a positive and profitable move for the campus.

The committee heard comments in favor of the proposed plan from the following members of the campus and community.

Dr. Rod Butler, Music Department - CSU, Dominguez Hills  
Mr. Brian Raber – City of Carson resident  
Mr. Jim Lawson – Member, Carson Chamber of Commerce Board of Directors

Trustee Kaiser emphasized that the educational components of the plan should not be overlooked and stressed the importance of obtaining a financial commitment from Anschutz to assure implementation of the training and internship programs.

The committee recommended approval of the proposed resolution (RFIN 11-04-11).

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

Trustee Hauck noted the item concerned three projects at three separate campuses: CSU, Dominguez Hills, CSU, Fullerton, and CSU, Los Angeles. The item requested the Board of Trustees to authorize the issuance of Systemwide Revenue Bonds, and the issuance of interim financing under the CSU's commercial paper program in an aggregate amount not-to-exceed \$75,078,000 to provide needed funds for the three projects.

Mr. Hordyk presented the details and background information on each project.

*CSU, Dominguez Hills, Dominguez Hills Loker Student Union Addition/Remodel*

Chair Galinson said he thought the cost of the Dominguez Hills project appeared very high and asked for additional information substantiating the cost per square foot.

A discussion took place regarding CSU's use of Lehman Brothers as underwriter for the system's bond sales. Trustee Esparza requested information on the competitive bid process for selecting an underwriter. He also requested information regarding CSU's efforts to offer opportunities to minority firms. Mr. Hordyk explained the state treasurer's office is responsible for conducting the bid process and creating a pool of underwriters who are subsequently assigned to the various state agencies to conduct bond-underwriting services.

Chancellor Reed assured the trustees they would receive further information on their questions.

*CSU, Fullerton Parking Structure 2*

Mr. Hordyk reviewed the terms of the project that was a request by the Fullerton campus for approval of financing for a new parking structure to be constructed on a portion of an existing

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parking lot (B). The project will provide a net increase of 971 parking spaces to the campus inventory.

The campus has received good bids on the project and construction is scheduled to commence in March 2005 with completion set for May 2006.

*CSU, Los Angeles University Auxiliary Services, Inc. (UAS) – Golden Eagle Facility*

Mr. Hordyk presented a brief description of the proposed transaction as written in the agenda book. He noted this would be the first campus to manage its existing stand-alone auxiliary debt through the Systemwide Revenue Bond program.

Several trustees expressed difficulty in understanding the reasoning and purpose for purchase of the building due to the manner in which the information was presented in the agenda item.

A discussion took place to answer various questions raised by the trustees on the project.

Chair Galinson stated he would support the motion because of the fiscal advantages to the campus.

The committee recommended approval of the proposed resolution (RFIN 11-04-12).

Chair Hauck adjourned the meeting.

## **COMMITTEE ON FINANCE**

### **Report on the 2005/2006 Support Budget**

#### **Presentation By**

Richard P. West  
Executive Vice Chancellor and  
Chief Financial Officer

Patrick J. Lenz  
Assistant Vice Chancellor  
Budget Development

#### **Summary**

The Board of Trustees will be presented with an overview of the Governor's 2005/06 state budget proposal including revenues, expenditures, major budget assumptions and legislative reaction to the budget. The Board also will be informed of the specific recommendations for the California State University contained in the Governor's proposal including enrollment assumptions, student fee levels and support for financial aid, compensation funding and resources requested for long-term needs.

#### **2005/06 Support Budget**

California faces a continuing fiscal crisis estimated to be \$8 to \$10 billion in the 2005/06 fiscal year. Although recent estimates indicate the state General Fund revenue has grown by \$2.4 billion as a result of an improving economy, anticipated revenue from tribal gaming and sale of surplus property is down by \$364 million and higher state costs for corrections, Medi-Cal, and trial court funding is up by \$860 million. In addition, the state has relied on nearly \$4 billion in "one-time solutions" in the current year that will not be available to balance state budgets in subsequent fiscal years as a result of voter-approved, budget-improvement ballot initiatives.

The current fiscal crisis is compounded by ballot initiatives and statutory, court-ordered or federally mandated restraints that specifically dictate approximately 92 percent of state funding. Proposition 98, an initiative that provides a constitutional funding guarantee to K-12 and the community colleges, consumes nearly half of every new dollar generated for the state General Fund. Corrections funding, which is driven by court orders and population growth, has incurred annual budget deficiencies over \$200 million within months of the enactment of the state budget. Medi-Cal costs have been increasing, and are subject to changes in the economy as well as the availability of affordable health insurance. Finally, California has incurred nearly \$5 billion as a

result of federally mandated programs. Newly initiated efforts will attempt to recover federal funds owed to California for tremendous costs already incurred.

The number of “state protected programs” and funding guarantees for those programs has left all other programs extremely vulnerable to state budget reductions. This has certainly been the case for the CSU, which has suffered a fiscal impact of \$524 million in reduced funding availability over the past three years. The combination of these budget reductions and unfunded costs have denied students access, attributed to significant increases in student fees, limited financial aid, and allowed for literally no compensation increases for faculty and staff. The CSU, in conjunction with the University of California, proposed a funding agreement with the Governor to provide the best funding guarantee possible to stem these overwhelming budget reductions.

Last May, the California State University and Governor Schwarzenegger enter into a “Compact Agreement” to restore student access, financial aid, faculty and staff compensation, fund mandatory costs and technology, libraries, and deferred maintenance. In the 2005/06 budget, the Compact assures the CSU an increase of 3 percent (\$71.7 million) for general operations, 2.5 percent (\$50.8 million) to serve an additional 10,000 students or 8,103 Full Time Equivalent Students (FTES), and fee revenue (\$99.9 million) generated from enrollment growth and increasing undergraduate fees by 8 percent and graduate fees by 10 percent. The state General Fund and student fee revenue invests \$222.4 million in the CSU.

As a result of the state’s \$222.4 million investment, CSU will be able to meet the following funding commitments:

- \$41.3 million – Mandatory costs for health and dental benefits, insurance costs, energy costs, and new space coming online in 2005-06
- \$61.5 million – Enrollment growth to increase enrollment permanently by 10,000 students (8,103 FTES) beginning in the fall of 2005
- \$23.6 million – Financial aid to ensure funding for our neediest students and provide an additional 2,700 new grants in 2005-06
- \$88.0 million – Compensation to establish a 3.5 percent funding resource to address faculty and staff salaries and benefits
- \$ 8.0 million – Long-Term Need to fund technology, libraries and deferred maintenance

The initial year of the Compact Agreement will not completely restore the funding shortfalls experienced by the University over the past three years. However, it does begin the road to recovery to provide student access and guarantee sufficient course sections can be provided to meet student demand, which represents the quality education provided at the CSU.

### **Conclusion**

This is an information item and the Board will be presented with a comprehensive review of the Governor’s state budget released on January 10.

## **COMMITTEE ON FINANCE**

### **Evolution of the Board of Trustees Financing Programs Including the Systemwide Revenue Bond Program and an Update on the Status of the CSU's Debt Program and Debt Capacity**

#### **Presentation By**

Dennis Hordyk  
Assistant Vice Chancellor  
Financial Services

#### **Introduction**

Like other major public universities, the CSU relies on a combination of internal and external funding sources to meet its capital needs. Internal funding sources, primarily campus and auxiliary organization revenues such as housing and parking, account for a relatively small share of capital funding sources. External capital funding sources include *(i)* State general obligation and lease revenue bonds; *(ii)* Systemwide Revenue Bonds (SRB) issued by the Trustees to fund enterprise activities such as student housing and parking; and *(iii)* a limited amount of auxiliary organization-issued revenue bonds to fund capital improvements that benefit the CSU.

Recently having completed the five-year nonstate capital portion of the 2005/06 Capital Outlay Program, the Chancellor's Office has worked with its financing team to analyze the CSU's debt capacity. Based on the current view of the capital market and the Compact for Higher Education, the team is developing a debt capacity model that incorporates quantitative factors, such as financial ratios, and qualitative factors such as student demand and the clear articulation of the system management team's strategy. At the Board meeting, a presentation will be provided to the Trustees to highlight the evolution of the CSU financing program and the result of the debt capacity analysis.

#### **Early Bond Act Programs of the Board of Trustees**

Prior to the formation of the CSU as a single system of higher education, new construction in the state colleges for academic projects was paid for by direct current year state budget appropriations on a project-by-project basis. However, for ancillary programs, primarily student housing projects at these colleges, the legislature had enacted the State College Revenue Bond Act of 1947 ("Bond Act") to provide a self-supporting financing vehicle independent of the appropriations of the State. The Bond Act gave the State Board of Education the authority to approve the issuance of such bonds with the approval of the State Board of Control.

In 1960/61, statutes were amended to create the California State Colleges as a single system (the Donahoe Higher Education Act). The Bond Act also was amended into the statutes governing

the new California State College system, which was placed under the authority of its new Board of Trustees. In the amended statutes of the Bond Act, the Trustees replaced the State Board of Education in its role as having authority to approve the issuance of bonds for housing projects at any of the California State Colleges. The Bond Act was further amended to add specific authority to finance student unions, parking facilities and ancillary facilities, so designated by the Trustees. The Trustees also received specific authority to establish the level of fees necessary to support housing, student unions, parking, and health center operations, and to be able to pledge these fees for the support of debt repayment of bonds issued pursuant to the Bond Act.

Several years later the State Treasurer was designated the “agent for sale” and “trustee” for the bonds authorized under the Bond Act. In addition, a specific project revenue fund was created in the State Treasury known as the Dormitory Revenue Fund (“DRF”), a name that endures to this day even though the activity permitted under the Bond Act has significantly expanded to include many types of projects other than student housing.

During the 1960’s and through the 1980’s, the Trustees issued bonds for student housing on an as-needed basis under a systemwide housing program revenue bond indenture. All bonds issued under this program were secured by a pledge of the combined housing system revenue. An administrative review process within the Chancellor’s Office approved each campus housing facility’s operating and maintenance budget, and new projects. Bonds were sold on an as-needed basis to fund the individual projects. Parking facilities, which were almost always constructed as surface lots during this period, were funded on a cash basis from systemwide parking fees. The parking fees also funded operations and maintenance. As with housing, campus parking operating and maintenance budgets and proposed projects also were reviewed and approved by the Chancellor’s Office.

Finally, campuses individually funded student union facilities through the assessment of student fees approved through referenda. A program was developed for Trustees’ approval of individual revenue bonds for campuses that would be supported specifically by the campus fee. Student union budgets, including debt payments, operations and maintenance, were reviewed and approved at the Chancellor’s Office.

### **Program Management Decentralization**

In the early 1990’s, under new executive leadership at the Chancellor’s Office, there was a fundamental policy shift made to link campus management responsibility with management authority accompanied by a reorganization and streamlining of functions at the Chancellor’s Office. Accordingly, the Bond Act programs for management of revenues, operations and maintenance of existing and future housing, parking, and health center programs were sequentially decentralized, and responsibility for these activities moved to the respective campus President and Chief Financial Officer. Because student union debt was composed of individual campus indentures with fundamentally different covenants, the same management

decentralization could not be accomplished without violating bond covenants. Therefore, this program was not decentralized until 2004.

### **Development of Auxiliary Organization Financing Activity**

From the 1960's through the early 1980's, statutes permitted auxiliary organizations under the control and authority of the Trustees to perform ancillary activities such as grants and contracts management, bookstores, and food services. At that time, tax law did not permit tax-exempt financing for these entities, and the Trustees' policy did not include this activity as a permitted function. After passage of the Tax Reform Act of 1986, the Trustees' policy was changed to permit auxiliary organizations to undertake financings. The Chancellor's Office developed a program under which selected auxiliary organizations could market tax-exempt securities to fund various projects to fulfill their chartered campus purposes, subject to Board of Trustees' approval. This financing program continued to grow at an ever-increasing rate through the 1990's. During this time the credit analysis by the major rating agencies evolved to the view that these auxiliary credits have a direct impact on the overall University credit. The volume of this auxiliary organization financing activity continued to grow rapidly, becoming significant in an aggregate amount compared to DRF debt.

### **The Trustees' First Financing Policy Statement**

During the late 1980's and 1990's, with the increased complexity in the DRF financing program, the establishment of the auxiliary organization financing program, and the beginning of programs for the use of State General Obligation Bonds and State Public Works Board Bonds for academic projects, there arose a need for a comprehensive policy statement by the Board to guide financing activities within the CSU. Therefore, in November 1998 the Trustees approved a "CSU Policy Statement for Financing Activities", a program-based framework that recapped important aspects of the existing financing programs in one document, and provided delegations to the Chancellor for operational expediency. The amended and current version (March 2002) of that policy is contained in Attachment B. The Trustees expressed their intent that this document be amended as needed and continue to be a single compilation that contains the Trustees' financing policies.

### **Development of the CSU's Commercial Paper Program**

In the spring of 2000, the Chancellor's Financing and Treasury staff began exploring the possibility of developing a Tax-Exempt Commercial Paper program ("TECP") to provide substantial upfront cost savings for DRF projects. While the CSU did not have direct legislative authority to issue TECP, the staff felt that it might be possible to create such a program by using the assistance of a systemwide auxiliary organization. In January 2001, the Trustees approved a TECP program with an initial limit of \$250 million in outstanding notes at any one time, and

maintained the requirement that individual projects come before the Trustees for approval. Since the staff implemented the TECP program, it has produced millions of dollars in interest cost savings.

### **Early Debt Capacity and Credit Issues, and the Development of the Systemwide Revenue Bond Program**

In the summer of 2000, the Chancellor's Office commissioned a comprehensive debt capacity study for the University. Since financing activity had increased over the years and rating agency approaches to debt capacity were evolving, the Chancellor's Office staff felt that information on the CSU's debt capacity could benefit the system and possibly provide insight on how to better manage the total debt of the University.

At the January 2001 meeting a debt capacity report was presented to the Trustees for information. The report provided an estimate of the existing CSU debt capacity based on capital market conditions at the time and a goal of maintaining a minimum of single "A" credit ratings. The report discussed the existing programs in an environment of rapidly expanding campus demand for financing; the current views of the credit rating agencies on debt management; and the concept that there could be better ways for the CSU to implement its debt programs.

The Chancellor's Office, as a result of the Trustee's discussion and findings in the debt capacity study, commissioned an additional study to review and, if possible, bring to the Trustees a conceptual proposal to improve the program. The study was to focus on the most effective method to:

- Strategically manage the University's debt program
- Reduce the cost of capital
- Maximize the use of limited debt capacity

By November 2001 the project team had developed conclusions and a conceptual plan, concluding that:

- The CSU should develop a systemwide, multi-source revenue pledge debt program.
- A strategic, disciplined and controlled approach to the use of debt would include almost all debt being issued through a systemwide multi-source revenue pledge program.
- Economies of scale and reduced costs would be achievable through the multi-source revenue program, by pooling cost of issuance, lower cost of capital and credit enhancements, and more effective use of management time devoted to bond financings.

- Pledged revenues should consist of housing, student union, parking, student health facilities, and continuing education revenues, with selected auxiliary project revenues.

The Executive Vice Chancellor and Chief Financial Officer presented the conclusions and the plan to the Trustees, including the future steps necessary to further confirm details so that a proposal for action could be brought back for approval. In November 2001 the Finance Committee discussed in detail the status of the CSU debt program at that point, and the fundamental elements of the new program under development (Attachment A). At that time the program was entitled the Enhanced Capital Management (“ECM”) but has since been termed the Systemwide Revenue Bond program (“SRB”).

After extensive consultation among campus Presidents, campus Chief Financial Officers and the Chancellor’s Office, the program was again brought to the Trustees in March 2002, where the Board approved the new program including the issuance of \$145.2 million in new SRB bonds. (Attachment B). At that time the CSU Policy on Financing Activities also was amended to recognize the principles that established the basis for the SRB program, establish criteria for auxiliary organization participation in the program, and provide the Chancellor with additional authority to establish management procedures to administer the program to ensure that the objectives of the SRB would be met. After extensive consultation with campus Presidents and the Chief Financial Officers, the Chancellor issued Executive Order 876, which established more detailed management procedures for the campuses.

### **Summary**

The SRB program has improved the credit of the CSU by the creation of the broad credit pledge, and has provided more efficient and less expensive access to financing for its revenue bond funded construction projects. Significant savings have resulted from the use of the Commercial Paper program as construction loans, from lower costs of issuance because of pooled sales, and from lower costs of credit enhancements and of capital because of the broader credit pledge and stronger credit ratings. The SRB program has clearly achieved the goals of providing a better strategic debt management program for the CSU and has been recognized nationally as a model program.

**Committee on Finance**  
**Agenda Item 7-- November 13-14, 2001**  
**Development of an Enhanced Capital Management Program**  
**for the Trustees Revenue Bond Program**

**Introduction**

This item provides information to the Board of Trustees on the planning and development of an Enhanced Capital Management (ECM) program consisting of a new long term debt management plan utilizing the existing Trustee's authority available under the State University Revenue Bond Act of 1947. The new program being explored would pledge all legally available fee revenue as a pool rather than the current process of pledging only specific program or project revenue.

**Background**

In January 2001 the board reviewed the debt capacity of the CSU and the various programs utilizing a portion of that total debt capacity. That discussion included a commitment to review CSU long-term debt programs to explore ways to reduce financing costs. Staff has undertaken a review and has developed a conceptual plan for a new debt issuance program with the assistance of a task force consisting of investment bankers and consultants with higher education expertise and CSU bond counsel and the CSU's financial advisory firm.

**Concepts for a New Revenue Bond Program**

To finance non-State projects such as housing, student unions and parking facilities, the board over the years has issued long-term debt pursuant to the State University Revenue Bond Act of 1947. These bonds are administered in separate programs governed by a variety of terms and conditions outlined in several indentures or bond resolutions, some of which date back to the beginning of the CSU system.\* The primary source of payment of principal and interest on these bonds is revenue from the financed projects, however the Education Code enables the board to levy five different kinds of fees that may be pledged as a backstop for the repayment of revenue bonds. The following table shows the status of debt programs and revenue pledges related to the fees that can be pledged for revenue bonds.

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\* Bonds issued for the student housing and related projects are governed by the terms of the 1968 Housing Bond Master Indenture, each student union bond issue is governed by individual bond indentures for each project and parking facilities bonds are issued on a project by project basis.

Program and Related Education Code Fees	Bonds Outstanding (as of Nov. 2001, in Millions) <sup>1</sup>	Annual Program Gross 2001 Revenue (Millions)	Form of Pledge	Number of Master Indentures or Bond Resolutions
Student housing	\$ 258	\$ 90	Systemwide net revenue	1
Student union	\$190	55	Campus by campus gross revenue	18
Parking	26	60	Campus by campus net revenue	1
Systemwide health center facility	0	15	Not currently pledged	0
Continuing education	0	136	Not currently pledged	0
<b>Total</b>	<b>\$ 474</b>	<b>\$ 356</b>		

<sup>1</sup> Does not include approximately \$104 million in the commercial paper program for projects in construction.

The current debt programs pledge only \$94 million of net (housing and parking) or gross (student union) revenue for the repayment of all existing debt. The task force concluded that if the bond programs were consolidated and all legally available fee revenue were pledged on a gross revenue basis, the resulting pledge of \$356 million would significantly improve the credit quality bonds issued by the board would provide several cost advantages. These cost factors and advantages are summarized as follows:

- ❑ By converting the various current debt programs to a single large system and creating a gross revenue pledge consisting of a larger pool of funds for debt repayment, bondholders likely will be willing to purchase bonds yielding a lower interest rate since the repayment risk becomes remote with the larger pool of pledged funds.
- ❑ In large gross revenue pledge debt programs, variable rate financing, if used modestly, conservatively and with some budgetary controls, can be used to reduce the total cost of financing without significant risk.
- ❑ In large gross revenue pledge debt programs, the cost of bond insurance, if needed, is lower than in smaller stand-alone bond programs. This would provide a cost savings over existing programs.

- In large gross revenue pledge debt programs, the need for bond reserves can be reduced or eliminated. Bond reserves (or the cost of surety reserve contracts) are normally funded from bond proceeds. Therefore, the amount of bonds required for a project could be reduced thereby reducing the overall cost of the project.
  
- A large gross revenue pledge debt program could be implemented with a lower debt coverage requirement and more favorable additional bonds tests. Current coverage requirements range from 1.25 to 1.35 times debt service. A new program could be implemented with a much lower debt service coverage test which will provide more flexibility in the management of bond financing of future projects.

For these reasons, a single large debt program with a gross revenue pledge from multiple revenue sources makes sense from a conceptual perspective. The secret to the success of the new consolidated program, however, will be the adoption of a carefully executed transition plan that recognizes the rights of existing bondholders.

### **A Planned Approach to Transition**

Given the presence of currently outstanding “old” bonds, the new program will be implemented as new “ECM” bonds are issued and as the old bonds are retired or refunded (i.e., refinanced with new bonds). Nevertheless, the new consolidated revenue pledge and the new ECM bond covenants will not be fully implemented until a sufficient number of new bonds are issued to “vote in” the new pledge and covenants. With the majority of the old bonds issued under the 1968 housing bond resolution (the ’68 resolution), the transition plan will focus on these existing bond provisions.

Under the ’68 resolution, new bond covenants may be implemented when bondholders representing 2/3 of the outstanding bonds agree to adopt the new provisions. Therefore, the new ECM bonds will be issued under the provisions of the ’68 resolution with the condition that the new pledge and covenants will automatically take effect when the amount of new ECM bonds reaches 2/3 of all ’68 resolution bonds. For the majority (over 60%) of the board’s outstanding bonds, this will complete a transition to the new ECM program and allow the CSU to obtain the advantages of the large single gross revenue pledge debt program for all future bond issues. Other old bonds issued for student unions and parking represent a minority of the CSU’s bond portfolio and will continue to be governed by old bond covenants until retired or refunded without deterring the CSU from using the advantages of the ECM program for all future borrowings.

As old ’68 resolution bonds are retired, the percentage of the bond portfolio represented by new ECM bonds will increase. Additionally, any refunding bonds issued to refinance bonds issued

under ECM program will also move the new ECM bonds closer to the 2/3 goal. However, because the CSU has actively managed its bond portfolio and has taken advantage of refunding opportunities in the past, a majority of the existing bonds are not available for refinancing at this time due to limitations imposed by federal tax law. Nevertheless, our financial advisors are continually evaluating refunding opportunities and have identified a segment of bonds that should remain refunding opportunities into the coming months of the next year. If refunded in the spring of 2002 as the ECM program is finalized, they would assist in reaching our conversion goal.

To reach the 2/3 goal staff estimates the board would have to issue approximately \$517 million in ECM bonds. At the time of this agenda item, with the projects in the planning stage and those under construction now being funded by the commercial paper program, it is estimated that we could have a need for project funds equal to this amount that could be put into long term bonds as early as September, 2002.

The commercial paper program implemented by the board in January 2001 provides flexibility to achieve cost saving and amass projects for more efficient financings. The program currently is funding 6 projects with potential long-term bond aggregating \$123 million. The commercial paper program will continue to be used to assist with achieving the lowest cost of capital and would be used on a strategic basis to help facilitate the implementation of the ECM program. The size of the commercial paper program may have to be increased to help with this implementation plan.

### **Additional ECM Program Financing Capability**

The ECM program is being developed to provide additional financing flexibility that would benefit the CSU. The following program areas could be serviced by the ECM program, provided adequate independent revenue sources were identified and pledged, and any legal and programmatic restrictions were resolved:

- *Continuing Education Facilities:* Projects for this program could go forward with relatively little additional complexity other than the development of administrative systems to account for and control the debt for the additional projects. Prior to recent changes in the Education Code initiated by the chancellor, the board could not pledge these fees for debt payments. With the ECM program, the entire gross revenue from campus continuing education programs along with other program revenues will now be pledged for the repayment of all debt of the board. However, no continuing education revenue would be used for debt payments unless the board approved specific continuing education program projects, or unless other revenue bond campus programs could not generate the revenue needed to pay their debt service. The approval of continuing education revenue bond projects would represent a new use of the Trustee's debt authority.

- *Auxiliary Organization Type Financings:* Currently auxiliary organizations finance many campus projects that are outside the scope of authority of existing bond programs. Typical projects would include bookstore, food service facilities, or childcare centers. These individual stand-alone financings are more expensive than debt issued under the ECM program. A full analysis of requirements and options is underway to establish and make recommendations to the board and the chancellor to establish a policy for projects that might qualify for the ECM program. Since the types of projects that might be proposed under this aspect of the program would not produce revenue from the specific fee categories that are pledgeable according to the Education Code, careful analysis and implementation of guidelines is necessary. It is contemplated that legal analysis of options and proposed policy guidelines would be completed after the ECM program has converted the existing 1968 bonds to parity bonds through the transition process described above.
  
- *Deferred Maintenance:* If an additional revenue source of CSU funds could be identified, it may be possible to finance deferred maintenance in the system. Were the CSU to obtain authority to deposit student enrollment fees into a CSU trust fund instead of the General Fund of the State of California for example, interest income on the deposits could provide a revenue source for deferred maintenance or other CSU projects. Currently, the CSU does not have the authority to deposit student enrollment fees into a CSU trust fund. Staff at the chancellor's office is continuing to investigate the possibility of obtaining the necessary fee deposit authority.

### **Future Actions to Implement the Program**

With the Board's concurrence, staff will continue to develop and plan for the implementation of the transition to the ECM program. The following specific actions are being proposed:

- Through November and December 2001, initiate and/or continue external discussions with rating agencies, bond insurers; the State Treasurer's Office, the State Controller's Office, and liquidity providers for the commercial paper program; further develop the indenture; refine important program features such as additional bonds test and rate covenant projections; and analyze the internal bond program administrative procedures for need changes.
  
- Through December 2001 and January 2002, finalize the bond indenture, and draft an initial disclosure document and other bond documents; begin to implement any new administrative procedures needed for the first financing under the ECM program; continue to evaluate refunding opportunities, changes in project schedules as they might

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impact the program, and the need for an expansion of the commercial paper program; and in January 2002 update the board on the status of implementation plans.

- Through February and March 2002, have final discussions and receive the go-ahead from external agencies; complete new internal administrative bond program procedures and other final plans for the ECM program; update refunding opportunities; finalize bond documents; and in March seek approval from the board to execute appropriate refinancing opportunities as the first ECM transaction.

**Committee on Finance**  
**Agenda Item 2—March 12-13, 2002**  
**Approval to Proceed with a New Debt Financing Program for the**  
**California State University with Corresponding Revision and Restatement of the**  
**California State University Policy on Financing Activities**

**Summary**

This item requests the Board of Trustees to consider and approve a new systemwide revenue bond debt financing program for the California State University, and to approve a revision and restatement of the California State University Policy on Financing Activity originally approved in November, 1998. The new debt-financing program is designed to assist the Board in strategically planning its issuance of debt, while taking advantage of the cost and other benefits of a large pooled debt program. The approval of the new debt-financing program includes a process to convert a large component of existing debt to the new program. The Board has received information on development of the new debt-financing program at the previous November and January meetings.

**The Proposed New Systemwide Revenue Bond (ECM) Financing Program**

In January 2001, the Board reviewed a debt capacity study of the California State University. That discussion included a commitment by the staff to further review California State University long-term debt programs and explore ways to reduce financing costs and strategically manage the issuance of debt.

Consistent with related presentations in November 2001 and January 2002, staff has completed the groundwork to achieve those objectives. On a per project basis and a system basis, the newly designed multi-source and systemwide revenue pledge program previously referred to as Enhanced Capital Management (ECM) will be able to achieve savings in the following areas:

- ❑ Interest rates on bond maturities
- ❑ Bond reserve requirements
- ❑ Cost of issuing bonds
- ❑ Capitalized interest

In addition, the ECM program will have a positive impact on using and extending the bond debt capacity of the California State University. The new ECM program is designed to eventually replace almost the Board's entire current revenue-based project financing programs, with a single debt issuance program authorized pursuant to the State University Revenue Bond Act of 1947. The new program would have a systemwide multi-source revenue pledge creating a larger pool of funds to support the debt thereby achieving a superior quality of credit in the process. Current programs pledge approximately \$94 million in project revenues. The ECM program

would have the potential to have approximately \$356 million of annual revenue pledged to repay the debt if all existing debt were converted to the new program. These revenues would be made up of the following fee categories, consistent with the pertinent sections of the Education Code:

- ❑ Student (Rental) Housing Fees (Ed Code Sections 89700(a), 90002, 90012(c), 90074 fees)
- ❑ Student Union Fees (Ed Code Section 89304 student body center building and operating fee)
- ❑ Parking Fees (Ed Code, Section 89701 fees)
- ❑ Health Center Facility Fees (Ed Code, Section 89702 fees)
- ❑ Continuing Education Fees (Ed Code, Section 89704 fees)

The program is being structured so that each project will continue to provide the needed revenue to repay its portion of the debt incurred, however, the revenue sources noted above not directly associated with a project would also be pledged for bond repayment to increase the creditworthiness of the ECM program. This would give campuses greater resources to draw upon in any circumstance where one source of debt repayment revenue decreased due to unforeseen conditions.

In addition, the new ECM debt-financing program would have several new bond covenants that are needed to take advantage of more modern financing concepts not currently available in the older bond program resolutions. For example, the ability to issue variable rate debt, a lowering of the coverage requirement, elimination or lowering of the bond reserve requirement, and the flexibility to use surplus funds for other purposes are all desirable characteristics that will reduce debt costs and increase flexibility to assist the campuses in meeting their educational missions.

Additional benefits will accrue to the California State University by having the ability to finance many of what have been auxiliary organization projects through this new debt-financing program. Because auxiliary organization projects are inherently less creditworthy, and because they are included in the debt capacity of the California State University, those financings have slightly eroded the credit of the Trustees. Credit rating agencies have expressed a positive reaction to the program because they feel it will reduce this credit quality erosion and help forestall a credit downgrade. This is an especially important benefit of the program because auxiliary organization projects have proportionally grown at an increasing rate when compared to Trustees' debt. With the new program, this issue can be better managed.

### **The Transition to the New ECM Program**

Given the presence of currently outstanding “old” bonds, the new debt-financing program will be implemented as new ECM system bonds are issued and as the old housing system bonds originally issued under a 1968 master bond resolution are retired or refunded. The new consolidated revenue pledge will take effect with the first issuance of ECM bonds, which is proposed for approval at this meeting. However, the new ECM bond covenants will not be implemented until a sufficient number of new bonds are issued to “vote in” the new covenants and effectively convert the old housing system bonds to the new ECM program. The old resolution already permits varying types of approved trustees' projects to be financed, and therefore the first issuance of the ECM bonds is proposed to contain a number of different project types.

Under the '68 resolution, new bond covenants may be implemented when bondholders representing 2/3 of the outstanding bonds agree to adopt the new provisions. Furthermore, the new ECM bonds will qualify as additional bonds under the '68 resolution, and will require that the new ECM covenants automatically take effect when the amount of new ECM bonds reaches 2/3 of all the bonds outstanding under the '68 resolution.

When the transition is completed, all of the Board's housing system bonds and almost all of the new projects financings authorized in the future will be in the new ECM debt financing system. Other old bonds issued for student unions and parking will represent a minority of the CSU's bond portfolio and will continue to be governed by old bond covenants until retired or refunded. However, these will be pulled into the new system as soon as practicable.

As old '68 resolution bonds are retired, the percentage of the bond portfolio represented by new ECM bonds will increase. Additionally, any refunding bonds issued to refinance bonds issued under ECM program will also move the new ECM bonds closer to the 2/3-approval requirement. However, because the California State University has actively managed its bond portfolio and has taken advantage of refunding opportunities in the past, a majority of the existing bonds are not available for refinancing at this time. Nevertheless, our financial advisors will continually evaluate refunding opportunities.

To reach the 2/3-bond holder approval objective, the Board will have to issue approximately \$517 million in ECM bonds. At the time of this agenda item, with the projects in the planning stage and those under construction now being funded by the commercial paper program, it is estimated that we could issue approximately the needed \$517 million in long-term bonds as early as October 2002.

## **The Proposed Revised and Restated California State University Policy on Financing Activities**

The first California State University Policy on Financing Activities approved in 1998 was intended to form the nucleus of a financing policy for the Board that would cover all issues for long-term debt programs available to the Board. Therefore, the policy included certain delegations and other related topics for financing the administration of both state funded programs and the Board's non-state funded debt-financing programs. The proposed changes to the state funded sections of the financing policy are primarily ministerial. However, there are significant changes to the non state sections of the policy that are intended to shift the Board's primary financing vehicle from individual revenue-based State University Bond Act and auxiliary financing programs to the proposed State University Bond Act ECM program.

The following are key elements of the revised proposed policy:

- ❑ Includes the principles on general debt management concepts reviewed by the Board at the January, 2001 meeting (Section 1).
- ❑ Includes important principles of the new ECM debt program that replace sections pertaining to the current programs for debt issued by the Board and auxiliary organizations (Section 2 and 3). These sections would permit the Chancellor to further define policy needed to implement the debt policies of the Board. Most kinds of projects previously financed by auxiliary organizations would be financed directly by the trustees and any exceptions would require initial approval to proceed by the Chancellor with final financing approval by the Trustees.
- ❑ Restates and updates delegations for the Public Works Board bonds issued on behalf of the California State University (Section 4).
- ❑ Updates ministerial sections on credit of the State of California, the tax laws and the implementation of the policy (Sections 5, 6 and 7).

### **Recommended Action:**

Approval of the following revision to the California State University Policy on Financing Activities that embodies a restructuring of the Board's debt policies consistent with the principles of the newly developed Enhanced Capital Management Program outlined in this agenda item.

### **California State University Policy for Financing Activities Board of Trustees' Resolution**

**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 California State University 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 California State University 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 California State University, and to use the limited debt capacity of the California State University 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" 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 California State University's Debt Program

- 2.1 To use the limited debt capacity of California State University 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 whose 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 the transaction cannot be accommodated 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 Various Projects**

#### **Presentation By**

Dennis Hordyk  
Assistant Vice Chancellor  
Financial Services

#### **Summary**

This item requests the Board of Trustees to authorize the issuance of Systemwide Revenue Bonds and the issuance of interim financing under the CSU's commercial paper program in an aggregate amount not-to-exceed \$178,385,000 to provide funds for five projects. To facilitate maximum flexibility in the commercial paper program, the Board is being asked to approve separate resolutions relating to each project. The long-term bonds for the projects will be part of a future Systemwide Revenue Bond sale and are expected to bear the same ratings from Moody's Investors Service and Standard and Poor's Corporation as the existing Systemwide program bonds.

The projects are as follows:

#### **1. Hayward Pioneer Heights Phase II Student Housing**

Previously, the Board of Trustees approved the amendment of the Nonstate Funded Capital Outlay program and the schematics for the Pioneer Heights Phase II Student Housing project. The project consists of 76 housing units with a total of 416 beds (approximately 121,000 gross square feet). There will be 32 units consisting of double-occupancy rooms and 44 units consisting of 4 single-occupancy rooms. The housing will be in three buildings designed in a combination of 3 and 4-story structures. The project will also include administration offices and a student life center (approximately 8,000 gross square feet) and will remodel the existing El Dorado Hall to increase laundry facilities and common activity areas. The project received a favorable recommendation by the Housing Proposal Review Committee.

The not-to-exceed par value of the proposed bonds is \$31,795,000 and is based on an estimated project cost of \$31,724,046, of which \$3,500,000 will be paid from campus housing program reserves, and the remaining balance will be paid from financing proceeds. The project delivery method is design-bid-build and the campus received good bids in December 2004. The project is scheduled to begin construction in February 2005 and be completed in June 2006.

The following table provides information about this financing transaction.

Not-to-exceed amount:	\$31,795,000
Amortization:	Approximately level over 29 years
Pro-forma maximum annual expected debt service:	\$2,106,043
Projected debt service coverage including the new project: <sup>1</sup>	
Gross revenue – all Hayward pledged revenue programs:	5.46
Net revenue – all Hayward pledged revenue programs:	2.19
Net revenue – projected for the campus Housing program:	1.21
Net revenue – projected for the Project:	1.11

1. Projected information – Combines unaudited 2003/04 information for the campus-operated pledged revenue programs and the first year of operation of the new project with expected full debt service.

The not-to-exceed amount for the project totaling \$31,795,000, the maximum annual debt service, and the ratios above are based on a construction project bid amount, expected debt service and capitalized interest at the current interest rate environment plus 50 basis points (computed average coupon rate – 5.13%; December 14, 2004), which provides a modest safeguard to be used if needed 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 our CSU program standard. The campus has submitted a financial plan that has a 1.11 project net revenue debt service coverage and a 1.21 program net revenue debt service coverage which both meet the CSU benchmarks of 1.0 and 1.10 respectively. The campus combined net revenue debt service coverage from all pledged revenue programs is above the 1.35 times debt service system benchmark.

## 2. Pomona Parking Structure I

Previously, the Board of Trustees approved the amendment of the Nonstate Funded Capital Outlay program and the schematics for the Pomona Parking Structure I project. The project will be constructed on a portion of the existing parking lot F immediately adjacent to the east of the Classroom, Laboratory, and Administration (CLA) building. The project will displace 687 surface spaces while providing 2,378 new spaces, resulting in a net increase of 1,691 parking spaces to the campus inventory. The structure will be five-stories, plus parking on the roof for a total of six levels. The first level is partially subterranean and vehicular entry is available at the first and second levels to maximize loading efficiency. The project also includes a 15,298 square-foot, two-story Public Safety building that will house the offices of Parking and Transportation Services, University Police, Rideshare, and shell space for the future campus Emergency Operations Center. In addition, the project calls for traffic signals of a major campus intersection and roadway improvements.

The not-to-exceed par value of the proposed bonds is \$34,080,000 and is based on a project cost of \$37,613,000, of which \$6,500,000 will be paid from campus parking program reserves, and the remaining balance will be paid from financing proceeds. The project delivery method is design-bid-build and the campus received good bids in December 2004. The project is scheduled to begin construction in February 2005 and be completed in August 2006.

The following table provides information about this financing transaction.

Not-to-exceed amount:	\$34,080,000
Amortization:	Approximately level over 25 years
Pro-forma maximum annual expected debt service:	\$2,392,375
Projected debt service coverage including the new project: <sup>1</sup>	
Gross revenue – all Pomona pledged revenue programs:	3.45
Net revenue – all Pomona pledged revenue programs:	1.28
Net revenue – projected for the campus Parking program:	1.45

1. Projected information – Combines unaudited 2003/04 information for the campus-operated pledged revenue programs and the first year of operation of the new project with expected full debt service.

The not-to-exceed amount for the project totaling \$34,080,000, the maximum annual debt service, and the ratios above are based on a construction project bid amount, expected debt service and capitalized interest at the current interest rate environment plus 50 basis points (computed average coupon rate – 5.02%; December 14, 2004), which provides a modest safeguard to be used if needed 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 our CSU program standard. The campus has submitted a financial plan that has a 1.45 program net revenue debt service coverage, which meets the CSU benchmark of 1.10. The campus combined net revenue debt service coverage from all pledged revenue programs is temporarily below the 1.35 times debt service system benchmark due to a delay in opening a housing facility which had been subject to vandalism issues during the construction, and due to unexpected project cost increases and delays for a recent student union expansion project. However, even though the campus debt service coverage ratio is below the system benchmark, it is recommended that the Trustees approve the project as it helps the campus achieve its financial benchmark and provides critical parking for the campus community.

### **3. San Francisco Student Housing – Villas at Parkmerced, Lot 42 Property Acquisition Project**

Previously, the Committee on Campus Planning, Buildings and Grounds was asked to approve the amendment of the Nonstate Funded Capital Outlay Program for the acquisition of housing

property immediately south and adjacent to the campus. The property acquisition is known as the Villas at Parkmerced, Lot 42, and is approximately 2.81 acres. The property has 66 one and two-story garden apartment units in three separate buildings with 66 covered parking spaces. The campus would use this property to provide housing for graduate students and married students and would operate the property under its campus' housing program. The project received a favorable recommendation by the Housing Proposal Review Committee.

The not-to-exceed par value of the proposed bonds is \$10,510,000 and is based on estimated total project cost of \$10,985,000 of which \$811,000 will be paid from campus reserves and the remaining balance will be paid from financing proceeds.

The following table provides information about this financing transaction.

Not-to-exceed amount:	\$10,510,000
Amortization:	Approximately level over 30 years
Pro-forma maximum annual expected debt service:	\$682,984
Projected debt service coverage including the new project: <sup>1</sup>	
Gross revenue – all San Francisco pledged revenue programs:	5.53
Net revenue – all San Francisco pledged revenue programs:	1.34
Net revenue – projected for the campus Housing program:	1.07
Net revenue – projected for the Project:	1.00

1. Projected information – Combines unaudited 2003/04 information for the campus-operated pledged revenue programs and the first year of operation of the new project with expected full debt service.

The not-to-exceed amount for the project totaling \$10,510,000, the maximum annual debt service, and the ratios above are based on an acquisition price net of campus contribution, expected debt service and capitalized interest at the current interest rate environment plus 50 basis points (computed average coupon rate – 5.10%; December 14, 2004), which provides a modest safeguard to be used if needed 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 our CSU program standard. The campus has submitted a financial plan that has a 1.0 project net revenue debt service coverage that meets the CSU benchmark. The program and the campus net revenue benchmarks of 1.07 and 1.34 are slightly below the CSU benchmarks of 1.10 and 1.35. However, the variance from the benchmarks is not significant and it is recommended that the Trustees approve this project as it provides essential additional housing for students in a very high cost housing area.

**4. Fresno Association Inc. – Save Mart Center Refinancing**

Previously, an auxiliary project was approved for the California State University, Fresno Association, Inc. (Association), a recognized auxiliary organization in good standing, and the Association then financed the construction of a multi-purpose event center named the Save Mart Center. The bonds were issued at a total par amount of \$74,475,000, of which \$5 million were issued as a non-rated subordinated series. This was a limited-recourse transaction by the Association with certain revenues being pledged to the bonds. The refinancing is estimated to generate a net present value savings of approximately \$1.5 million. The refinancing will be funded through the Systemwide Revenue Bond program and will maintain the current maturity date. A general obligation pledge of the Association will be required and will be on parity with existing Association debt.

Not-to-exceed amount	\$75,000,000
Net present value savings	2.05% of the refunded principal amount

The not-to-exceed amount for both the refinancing and the net present value savings are based on the existing bonds, at the current interest rate of 4.63% (December 8, 2004), which may fluctuate before the permanent financing bonds are sold. This refunding will have minimal impact on the systemwide debt capacity since all auxiliary debt is already included in our financial statements and debt capacity calculations.

During the first year of a level refinancing debt service schedule the project will achieve a 1.8 project net revenue debt service coverage and the auxiliary organizational will achieve a 1.55 program net revenue debt service coverage, which both meet the CSU benchmarks of 1.10 and 1.25, respectively. The campus combined net revenue debt service coverage from all pledged revenue programs, assuming a level debt service, is 1.82, which exceeds the 1.35 times debt service system benchmark

**5. San Marcos University Corporation – Student Housing Refinancing**

Previously, an auxiliary project was approved for the California State University, San Marcos University Corporation (Corporation), a recognized auxiliary organization in good standing, and the Corporation then financed the construction of a 475-bed student housing facility. The bonds were issued on a variable rate basis, with a fixed coupon for the first three years, at a par amount of \$27,990,000, and a mandatory tender date of April 1, 2005. At the time of the construction of the project and issuance of the bonds, the campus had no student housing and this method of financing was the best available for a start-up housing program. The mandatory tender date requires a remarketing or refinancing of the existing bonds. Due to reasonable low long-term

rates and the inherent risk of variable interest rates, the Campus/Corporation have expressed their desire to refinance to a fixed rate through the Systemwide Revenue Bond program. The refunding bonds will continue to be a general obligation pledge of the Corporation and will maintain the current maturity date.

Not-to-exceed amount	\$27,000,000
Net present value savings	Not Applicable

The not-to-exceed amount for the refinancing is based on the existing bonds, at the current interest rate 4.55% (December 13, 2004), which may fluctuate before the permanent financing bonds are sold. Given the variable rate nature of the original transaction, a comparison with a fixed rate, for net present value savings, is difficult to make. The proposed refinancing will eliminate the cost of the Letter of Credit (approximately \$330,000 last year), and will generate positive cash flows on an annual basis and remove any risk of an interest rate spike. This refunding will have minimal impact on the systemwide debt capacity since all auxiliary debt is already included in our financial statements and debt capacity calculations.

During the first year of a level refinancing debt service schedule, both the project and the auxiliary organization will achieve a 1.39 net revenue debt service coverage, which both meet the CSU benchmarks of 1.10 and 1.25, respectively. The campus combined net revenue debt service coverage from all pledged revenue programs, assuming a level debt service, is 2.37, which exceeds the 1.35 debt service system benchmark.

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

Orrick, Herrington & Sutcliffe LLP, as bond counsel, is preparing a set of resolutions to be presented at this meeting for each project described in this agenda item that authorize interim and permanent financing for the projects. The proposed set of resolutions will be distributed at the meeting and will achieve the following:

- (1) Authorize the sale and issuance of Systemwide Revenue Bond Anticipation Notes and the related sale and issuance of the Trustees of the California State University Systemwide Revenue Bonds in an amount not-to-exceed \$178,385,000 and certain actions relating thereto.
- (2) Provide a delegation to the Chancellor, the Executive Vice Chancellor and Chief Financial Officer, 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, individually or in total, of separate sets of the financing resolutions for the following projects as described in this agenda item is recommended for:

- 1. Hayward Pioneer Heights Phase II Student Housing.**
- 2. Pomona Parking Structure I.**
- 3. San Francisco Student Housing – Villas at Parkmerced, Lot 42 Property Acquisition.**
- 4. Fresno Association Inc. – Save Mart Center Refinancing.**
- 5. San Marcos University Corporation – Student Housing Refinancing.**

## COMMITTEE ON FINANCE

### **Auxiliary Organization Tax-Exempt Financing at Sonoma State University**

#### **Presentation By**

Dennis Hordyk  
Assistant Vice Chancellor  
Financial Services

Ruben Armiñana  
President  
Sonoma State University

#### **Summary**

Sonoma State Academic Foundation, Inc. (Foundation), a recognized auxiliary organization in good standing, is proposing to issue four-year tax-exempt notes in an amount not-to-exceed \$13,000,000 to partially fund the construction of a Concert Hall at the Donald and Maureen Green Music Center (GMC) to be located on the Sonoma State University campus.

The various components of the GMC facility will be funded using multiple sources. The facility will include a concert hall, estimated cost of \$32 million, funded through donations; a music/faculty office building, estimated cost of \$18 million, funded through the 2005/06 State general obligation bond appropriations; and a conference center, estimated cost of \$8 million, funded through the SRB financing program. The entire project will be brought back to the Trustees for final financing approval. The total budget for this center is estimated at \$58 million.

The GMC will directly benefit Sonoma State University students, faculty, and the community at large in providing a first class complex for teaching and learning in the performing arts curriculum, community outreach programs, teaching partnerships, exploration of new ideas, and opportunities for learning through collaborative concerts and lectures.

The concert hall is part of the GMC (initially presented as the Center for Musical Arts project) that received schematic approval at the May 2000 Trustee meeting. The project was subsequently renamed the GMC. Sonoma State University and the Foundation have entered into a Memorandum of Understanding, which acknowledges that the concert hall is to be constructed by the Trustees with periodic transfers of donor funds from the Foundation to the campus to satisfy financial obligations.

## **Building Description**

The Green Music Concert Hall is approximately 45,400 square feet, containing a 1,400-seat concert hall and supporting backstage to accommodate large performances in the music and fine arts programs. The building will provide an architecturally elegant concert hall, and will function as a central home and gathering place for the University's cultural and intellectual life and that of its extended community in the North Bay, where the University plays an active role. The concert hall venue, though funded by donor funds and partnered with the Santa Rosa Symphony, will be driven by academic curricular considerations.

The financing transactions will not create any legal or direct obligation of the State of California or the Trustees however; the transaction will be included on the balance sheet of the CSU's financial statements and will be considered a use of its available credit. The notes will be issued pursuant to an indenture entered into by the Foundation and a bank serving as trustee for the bonds. The donor pledges, collateralized by their letters of credit, will secure the notes.

The financing approach is being proposed as an auxiliary organization financing rather than SRB financing because the repayment source is not an ongoing revenue stream. This auxiliary organization financing, which is short-term (4 years) and of a relatively small amount, is fully secured by the donors' letters of credit, and is an effective mechanism for use in this unique circumstance.

## **Auxiliary Organization Tax-Exempt Financing**

The total concert hall project is budgeted at \$32 million. Of this amount \$14.4 million has currently been collected from a fund raising campaign. The balance of the project cost will be provided from the proposed not-to-exceed \$13 million short-term financing, which will be secured by the letters of credit; the ongoing fundraising campaign, which has received sufficient donor pledges to support the project; and available campus reserves, if required. The following summarizes key information regarding the proposed financing:

Financed amount not-to-exceed:	\$13,000,000
Term:	4 years With a single principal maturity debt service
Estimated Rate (All-in Interest Cost):	3.65% - subject to market conditions
Projected debt coverage:	100% covered by letters of credit and fully capitalized interest

Note credit rating:		Highest short term rating of Moody's Investors Service (MIG 1)
Financing Team:	Underwriters:	Citigroup Global Markets
	Underwriters Counsel:	Stradling, Yocca, Carlson & Rauth
	Bond Counsel:	Orrick, Herrington & Sutcliffe, LLP

The following resolution is presented for approval:

**RESOLVED**, by the Board of Trustees of the California State University, that the trustees;

1. Approve the proposed auxiliary organization financing in an amount not to exceed \$13,000,000 as described and for the purposes indicated in agenda item 4 of the Committee on Finance at the January 25-26, 2005 meeting, contingent upon the campus President providing a written certificate to the Executive Vice Chancellor and Chief Financial Officer of the CSU certifying that (1) all donors' letters of credit have been dully executed and received to support the aggregate full value for repayment of the financing, and (2) that construction on the Concert Hall will not begin until all funds are in place to construct the facility.
2. Confirm that the Chancellor, the Executive Vice Chancellor/CFO, Business and Finance; the Assistant Vice Chancellor, Financial Services; and the Senior Director, Financing and Treasury are authorized to take any and all actions on behalf of the Board of Trustees and to execute any documents that in their judgment are necessary to assist the auxiliary organization to complete the financing described in agenda item 4 of the Committee on Finance at the January 25-26, 2005 meeting.

## **COMMITTEE ON FINANCE**

### **Auxiliary Organization Tax-Exempt and Taxable Financing at San Diego State University**

#### **Presentation By**

Dennis Hordyk  
Assistant Vice Chancellor  
Financial Services

Stephen Weber  
President  
San Diego State University

#### **Summary**

The San Diego State University Foundation (Foundation), a recognized auxiliary organization in good standing, is proposing a tax-exempt borrowing in an amount not-to-exceed \$21.5 million to finance a student housing project with tax-exempt bonds and a taxable (commercial) borrowing not to exceed \$6 million to finance the construction of five sorority chapter houses. The whole sorority housing project will be constructed on off-campus land owned by the Foundation.

The financing transactions will not create any legal or direct obligation of the State of California or the Trustees however; the transactions will be included on the balance sheet of the CSU's financial statements and will be considered a use of its available credit. The Foundation will issue the tax-exempt bonds on a parity basis with certain outstanding housing revenue obligations of the Foundation pursuant to an indenture entered into by the Foundation and a bank serving as trustee for the bonds. Revenues derived from rental of the apartments will secure the bonds. The taxable financing will be secured by a mortgage on the chapter houses being constructed.

#### **Project Description**

The project allows the campus to deliver new sorority housing and facilities for SDSU's "Greek" community. The project will include 65 apartment units in three four-story buildings adjacent to five freestanding, three-story sorority chapter houses. The student apartment unit mix includes 14 one-bedroom, 27 two-bedroom, 2 three-bedroom, and 22 four-bedroom units ranging in size from 1,100 to 2,300 square feet. The sorority chapter houses range in size from 3,530 to 4,800 square feet and typically include living and dining rooms, study/computer/library space, kitchen, and a courtyard. A two-level subterranean parking structure will provide approximately 175 secured spaces for the residents.

A subdivision plan will divide the 1.56-acre property into eight separate buildings with the apartment buildings representing three units and the sorority chapter houses constituting the other five units. The Foundation will construct the entire project and retain ownership and management of the student apartment buildings only. The five sorority chapter houses will be sold to their respective house corporations. The Foundation is in the process of executing purchase contracts for three of the sorority houses and is negotiating with three other sororities for the remaining two chapter houses. The apartments will be financed with tax-exempt bonds, and construction of the sorority chapter houses will be financed using the Foundation's Union Bank line of credit.

### **Auxiliary Organization Tax-Exempt Financing**

The SDSU Foundation will issue the tax-exempt bonds on a parity basis with outstanding housing revenue obligations of the Foundation incurred for the 1998 Piedra del Sol and the 2001 Fraternity project. The bonds will be issued pursuant to an indenture entered into by the Foundation and a bank serving as trustee for the bonds. Pledged revenues consisting of pooled rental and other miscellaneous income from the Foundation's housing program will secure the bonds on parity with existing housing bonds.

Based on the discretionary nature of this project with regards to membership and the property belonging to the Foundation, as well as the condominium (resale) nature of the project, it has been determined to allow the financing to proceed outside of the Systemwide Revenue Bond Program.

The following summarizes key information regarding the proposed financing of the residential component of the project.

Tax-Exempt Amount not-to-exceed:	\$21,500,000
Term:	30 years
Estimated Rate (all-in true interest cost):	3.54%
Projected Debt Service coverage ratios:	1.25 sorority project 1.43 combined with existing housing program
Bond Insurance:	A written commitment has been received
Anticipated Intrinsic Rating:	Baa2 - Moody's BBB – S&P

### **Auxiliary Organization Commercial Financing for the Chapter House Component**

The Foundation will borrow funds on its existing \$10 million line of credit with US Bank. The line of credit is secured by a mortgage on the subject property. Upon completion of construction, a portion of the line of credit will be paid off with the sale of three of the chapter houses to the sororities for a total of approximately \$3.5 million. The remaining amount on the line of credit,

approximately, \$2,000,000 to \$3,000,000, will be converted to short-term permanent financing with a bank, if the Foundation is unable to sell the remaining houses.

The following summarizes key information regarding the proposed construction financing.

Taxable Amount not-to-exceed:	\$6,000,000
Term:	2 years – The term of the Letter of Credit
Estimated Rate:	4.00% - Rate is tied to index – 6 month LIBOR plus 100 basis points

The following resolution is recommended for approval:

**RESOLVED**, by the Board of Trustees of the California State University, that the trustees;

1. Approve the proposed auxiliary organization financing in an amount not to exceed \$27,500,000 as described and for the purpose indicated in this agenda item 5 of the Committee on Finance at the January 25-26, 2005 meeting.
2. Confirm that the Chancellor, the Executive Vice Chancellor Business and Finance, the Assistant Vice Chancellor, Financial Services, and the Senior Director, Financing and Treasury, are authorized to take any and all actions on behalf of the Board of Trustees and to execute any documents that in their judgment are necessary to assist the auxiliary organization to complete the financing described in agenda item 5 of the Committee on Finance at the January 25-26, 2005 meeting.