

AGENDA

COMMITTEE ON FINANCE

Meeting: 1:15 p.m., Tuesday, July 18, 2000
Glenn S. Dumke Conference Center

William Hauck, Chair
Murray L. Galinson, Vice Chair
Neel I. Murarka
Dee Dee Myers
Frederick W. Pierce IV
Ali C. Razi
Stanley T. Wang

Consent Items

Approval of Minutes of Meeting of May 9, 2000

Discussion Items

1. Status Report on the 2000/2001 Support Budget, *Information*
2. Auxiliary Organization Tax-Exempt Financing at California State Polytechnic University, Pomona, *Information*
3. Auxiliary Organization Tax-Exempt Financing at San Diego University, *Information*
4. State University House Trust, *Action*
5. Joint Powers Authority at California State University, Stanislaus Stockton Center, *Action*

**MINUTES OF MEETING OF
COMMITTEE ON FINANCE**

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

May 9, 2000

Members Present

Laurence K. Gould, Jr., Vice Chair
Bob Foster
Harold Goldwhite
William Hauck, Chairman of the Board, ex officio
Neel I. Murarka
Frederick W. Pierce IV
Ali C. Razi
Charles B. Reed, Chancellor, ex officio
Stanley T. Wang

Trustees Absent

Anthony M. Vitti, Chair

Other Trustees Present

Roberta Achtenberg
William D. Campbell
Martha C. Fallgatter
Debra S. Farar
Murray L. Galinson
Shailesh J. Mehta
Dee Dee Myers
Ralph R. Pesqueira

Chancellor's Office Staff

David S. Spence, Executive Vice Chancellor, Chief Academic Officer
Richard P. West, Executive Vice Chancellor, Chief Financial Officer
Jackie R. McClain, Vice Chancellor, Human Resources
Douglas X. Patiño, Vice Chancellor, University Advancement
Christine Helwick, General Counsel

In the absence of Trustee Vitti, chair, Vice Chair Gould called the meeting to order at 12:40 p.m.

Approval of Minutes

The minutes of March 14, 2000, were approved.

Status Report on the 2000/2001 Budget

Vice Chair Gould asked Mr. Richard P. West, executive vice chancellor and chief financial officer, to present the report.

Mr. West referred to a handout distributed prior to the meeting which contained the latest breaking news from Sacramento. The handout provided a comparison of the original Trustees' Budget with the Governor's Budget of January 2000, as well as the action to date with the Senate and Assembly.

Mr. West briefly reviewed the history of events leading to the current budget status culminating in a \$244 million budget for CSU. He noted that negotiations are still in progress in Sacramento with the May Revise expected to be announced by May 17, 2000.

Of particular note: CSU received funding in the amount of \$10 million for the Channel Islands site, and \$380,000 for the Coachella Valley Off-Campus Center operating program costs. The governor also added an additional one percent to the compensation pool for all employees.

Mr. West reported on the status of CSU's one-time funding requests, noting that priorities are focused in the areas of science and technology equipment as well as teacher preparation. He also reviewed the outcome of the Stockton feasibility study report, noting that both committees approved an \$11.3 million one-time augmentation as well as \$1.7 million for ongoing costs. Discussions are continuing with the City of Stockton and with the legislature, and further progress reports will be brought to the board as the project moves along.

Mr. West said that further budget outcomes still remain to be determined by the May Revise, and that he will have more to report once the budget is signed.

Approval of a Joint Powers Agency for Financing Activities at California State University, Channel Islands

Mr. Brad Wells, assistant vice chancellor, financial services, presented the item, which requested approval by the committee of a joint powers authority (JPA) between the CSU and the Channel Islands Site Authority. The purpose of the JPA is to provide financing for the development of the CSU Channel Islands site. Mr. Wells explained that the site authority is comprised of local government and CSU representatives and has a broad range of governmental powers common to both Ventura County and the trustees.

The JPA will facilitate the creation of a community facilities district that will provide the ability to levy a special tax on leasehold and possessory interests associated with the development of housing units on the CSU Channel Islands site. The JPA is a critical part of the overall plan to finance the CSU Channel Islands campus and would constitute an instrumentality of the state, which allows it to issue tax-exempt debt.

The committee recommended approval of the proposed resolution (RFIN 05-06-00).

Financing Transaction for Purchase of Office Building Adjacent to Campus by a CSU Fullerton Auxiliary Organization

Mr. Wells presented the information regarding the acquisition by the CSU Fullerton foundation of a ten-story office building on ten acres of land and an associated 1,000 parking spaces. The building is adjacent to the campus and the campus currently rents approximately 45,000 square feet of space in the building.

Mr. Wells explained the foundation will finance the acquisition through a combination of tax-exempt and taxable bonds, both with a 30-year maturity. The bonds will constitute a specific obligation of the foundation and will be secured solely by project revenues. Mr. Wells assured the committee that there will be no obligation to the state for the bond aspect of the project.

Dr. Milton A. Gordon, president, California State University, Fullerton, addressed the committee. He explained that during the past five years, the Fullerton campus has experienced tremendous growth with no signs of slowing in the near future. Upon examination, it was determined that the cost of buying the building and the land would be more cost effective than continuing to rent it. Acquisition of the building would provide an additional 200,000 square feet of space overall, and will help stem the immediate need for approximately 20,000 square feet of space for the fall semester.

Trustee Razi agreed that the acquisition appears to be a good move for the campus. He asked how the foundation intends to pay off the bonds. Dr. Willie J. Hagan, vice president, administration, at CSU Fullerton, explained that the university will lease a portion of the total space to commercial tenants. That revenue will go to the foundation to pay off the bond debt.

Trustee Murarka inquired about what entity will be responsible for property taxes, etc., once ownership of the building has been established by the university. Vice President Hagan said the building will come off the tax rolls as long as the university acts in a sovereign capacity with respect to the mission of the university. Any attempt to commercialize activity with respect to the building will place it under consideration of the local zoning entity.

Conceptual Plan of a Private Sector Development for a Soccer Academy and Stadium Complex at California State University, Dominguez Hills

CSU Dominguez Hills is in preliminary discussions with the Los Angeles Galaxy Major League Soccer Team regarding the possibility of entering into a public/private partnership for the construction of a 25,000- to 35,000-seat soccer stadium with an associated soccer academy facility, parking, and renovations to existing campus athletic venues.

Mr. Wells noted the item was being presented for conceptual approval only at this time. The estimated \$85 million project would have both educational and economic benefits to the university and the community. Dr. James E. Lyons, president, California State University, Dominguez Hills, said he has received and reviewed many proposals for use of campus property, and feels this project is one that has shown the most potential merit.

Trustee Razi asked why the Velodrome would be removed in order to accommodate the proposed project since the campus has a substantial amount of available land. President Lyons explained there were several factors involved. A primary issue of concern is the need for sensitivity to the surrounding residential community. In terms of the overall plan, the location of the Velodrome falls within the scope of the proposed facility. Moreover, attempts over many years to make the Velodrome a profitable entity have been unsuccessful.

Trustee Pierce asked for clarification of who would actually be the owner of the new facility, and who would control its use when the Galaxy team will not be using it. President Lyons replied the campus is currently negotiating the agreement between the university and the Galaxy Corporation. It is anticipated that initially it would be a 55-year lease, and as part of the language of the agreement, that question would need to be definitively addressed.

Trustee Campbell inquired about the financial entity that will finance the project and whether the university will be guaranteed completion of the project upon signing of the contract.

Mr. George Pardon, vice president, administration and finance, explained that the project will be privately financed and all liability will be held by the Los Angeles Galaxy. The campus will run the transaction through its foundation and there will be no liability to the university.

Mr. Pardon introduced Mr. Tim Lieweke, president of the Staples Center, and Mr. Ted Tanner, senior vice president for real estate at the Staples Center. Mr. Lieweke reinforced Mr. Pardon's remarks by acknowledging that the Galaxy Corporation would guarantee completion of the project. He clarified that the Galaxy Corporation would be the guarantor and the general partner of this endeavor, and would assume all financial risk.

Trustee Murarka observed that there was no mention of a tennis facility in the information package distributed to the trustees and inquired if it was still a part of the plan. President Lyons confirmed the tennis stadium is a part of the total plan.

Trustee Razi asked if campus growth would be impeded by construction of the facility. President Lyons responded that the project is consistent with the campus master plan and would not limit its growth.

A member of the Olympic Velodrome Association addressed the committee in support of preserving the Velodrome.

The committee recommended approval of the proposed resolution (RFIN 05-07-00).

Vice Chair Gould abstained from the vote.

Auxiliary Organization Financing at California State University, Chico

Mr. Wells presented the item. He explained the item was simply for information purposes and to advise the committee of the CSU Chico Research Foundation's plan to borrow funds on a tax-exempt basis to finance the prior purchase and capital improvements of an office building adjacent to the campus. The transaction will also finance capital improvements to the soccer stadium on the campus. The financed amount is not to exceed \$2.25 million and will not constitute a debt to the state.

Real Property Development Projects—Revision of Policy

Mr. Wells introduced the item, which calls for certain revisions to the policy approved by the board in 1994, regarding public/private and public/public partnership developments.

Experience with the original policy has led to recommendations for several key changes to the policy in order to clarify and strengthen its purpose. Mr. Wells reviewed the proposed changes and explained that specific procedures will be prepared by a committee chaired by Pat Drohan, assistant vice chancellor, capital planning, development and construction. The committee will ensure that the revised process proceeds in an effective manner and that financial and land-use issues are addressed in a coordinated fashion.

Trustee Razi supported the proposal and recommended that the relationship between the university's mission and a project should be added as a component to the proposed revisions.

Mr. Wells agreed and said that would be done.

The committee recommended approval of the proposed resolution (RFIN 05-08-00).

Adjournment

The meeting adjourned at 1:25 p.m.

BRIEF

Information Item

Agenda Item 1
July 18-19, 2000

COMMITTEE ON FINANCE

Status Report on the 2000/01 Support Budget

Presentation By

Richard P. West, Executive Vice Chancellor
and Chief Financial Officer

Summary

The Budget Act of 2000 was enacted June 30, 2000. Prior to enactment, the state Legislature had approved all of the spending increases included in the CSU appropriations item in the Governor's May Revision of the 2000/01 budget, a \$268.3 million increase in state General Fund support. Several items were added by the Legislature to augment the governor's appropriations including \$19.9 million to expand CSU year-round operations, \$15 million to expand capacity in strategic academic programs important to California's workforce, and several permanent and one-time appropriations for special campus needs. The Legislature also moved \$6.5 million of the \$50 million proposed by the governor for training K-12 teachers on the use of education technology in the classroom to the CSU budget. The total budget passed by the Legislature and forwarded to the governor for signature included a \$321.3 million General Fund increase for CSU.

The governor in his final budget message approved all the CSU items requested by the trustees in October and more. The General Fund increase totals \$333.7 million. The funding for strategic academic programs for California's workforce was reduced from \$15 million to \$10 million on a one-time basis, and not all campus initiatives added by the Legislature were funded. Overall, this budget includes the highest increase ever for the California State University.

A handout providing greater detail on the budget will be made available at the meeting.

BRIEF

Information Item

Agenda Item 2
July 18-19, 2000

COMMITTEE ON FINANCE

Auxiliary Organization Tax-Exempt Financing at California State Polytechnic University, Pomona

Presentation By

Brad Wells, Assistant Vice Chancellor
Financial Services

Summary

This agenda item is to inform the Board of Trustees of a proposed tax-exempt borrowing by the California State Polytechnic University, Pomona Foundation, a recognized auxiliary organization, in an amount not to exceed \$5.2 million to finance a portion of the cost to construct the Center for Training, Technology and Incubation.

ITEM

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Agenda Item 2
July 18-19, 2000

COMMITTEE ON FINANCE

Auxiliary Organization Tax-Exempt Financing at California State Polytechnic University, Pomona

Background

Consistent with the trustees' previous approval of a public and private development project for California State Polytechnic University, Pomona (RFIN 11-99-10), the university will lease approximately four acres of real property to the Foundation pursuant to a ground lease permitting the Foundation to use the property for the Center for Training, Technology and Incubation. The improvements will become the property of the university when the debt is repaid.

The Center for Training, Technology and Incubation is a multifunctional complex that will also include the College of the Extended University's business incubation program. This program consists of two incubators, the NASA Commercialization Center and the Pomona Technology Center.

The NASA Commercialization Center, one of nine National Aeronautics and Space Administration technology transfer projects, will work directly with the Jet Propulsion Laboratory and Dryden Flight Research Center. It will offer space and lab-to-market business and technical services to small companies that are using NASA technology to produce new products and services. The Pomona Technology Center is one of seven business incubators selected for development within the Los Angeles County Incubator Network as part of the Los Angeles County Defense Conversion Fund. It will offer space and lab-to-market business and technical services to small companies that are using emerging biotechnology and information technologies to launch new products and services. The individual incubation projects will be funded from grant funds.

Financing

The Cal Poly Pomona Foundation, Inc. (Foundation), a recognized CSU auxiliary organization in good standing, is proposing a tax-exempt borrowing in an amount not to exceed \$5.2 million to finance a portion of the cost to construct the Center for Training, Technology and Incubation. The proceeds of the financing will be used to construct three buildings that will be utilized to house the College of the Extended University's administrative offices, classrooms, conference rooms, laboratory space, a Foundation bookstore and café, and other auxiliary activities.

The bonds will be issued by the Foundation on a parity basis with the Foundation's 1990 B series bonds and a 1996 loan agreement entered into by and between the Foundation and SallieMae. The bonds will be a general obligation of the Foundation secured by unrestricted revenues, a leasehold interest in the ground leases, and an interest in the master operating agreement of the Foundation. The pledged corporation revenues consist of all of the unrestricted revenues existing, earned, or received by the Foundation. SallieMae's consent to this parity pledge will be obtained before the bonds are issued. The Foundation, based upon advice of its underwriter, expects to receive an investment grade rating for its bonds and may also receive commitments to insure the bonds.

The financing transaction will not create any obligation of the state of California or the trustees. Subsequent to the review of this item by the Board of Trustees, the chancellor will take the necessary action on behalf of the board to assist the auxiliary pursuant to the chancellor's delegation in the Board of Trustees' CSU Policy for Financing Activities.

Summary

Financed amount not to exceed:	\$5.2 million
Term:	25 years
Projected all inclusive interest rate:	6.16 percent
Debt service coverage:	1.99 times
Bond insurance commitment:	Commitment being sought
Intrinsic credit rating on the bonds (before insurance):	Investment grade

Additional Information

On January 9, 1998, the IRS issued a private letter ruling permitting the categorization of certain auxiliary organizations as "an instrumentality of the state" for tax-exempt financing purposes. While the ruling related to a specific future auxiliary transaction not associated with this financing, Orrick, Herrington and Sutcliffe LLP (bond counsel to the trustees and also special counsel for the transaction described herein) indicates that if the circumstances that form the basis of the ruling are similar in other auxiliary transactions, those transactions may also be accomplished under the more streamlined procedures for issues by and for an instrumentality of the state. Orrick, Herrington and Sutcliffe LLP has reviewed the circumstances for the proposed financing and determined that they are substantially similar to the circumstances in the private letter ruling. Therefore, the Foundation may take advantage of less restrictive provisions of the tax law and streamline some procedures that result in financing cost savings. The ruling also permits the subject organization to cause tax-exempt governmental obligations to be issued in its own name, without taking the additional steps and incurring the additional costs that are associated with the issuance of tax-exempt obligations through a third party governmental unit.

BRIEF

Information Item

Agenda Item 3
July 18-19, 2000

COMMITTEE ON FINANCE

Auxiliary Organization Tax-Exempt Financing at San Diego State University

Presentation By

Brad Wells, Assistant Vice Chancellor
Financial Services

Summary

A recognized auxiliary organization of San Diego State University, Aztec Shops Ltd., is proposing to issue tax-exempt bonds to finance the cost of acquiring a 570-bed student housing facility and full-service cafeteria immediately adjacent to the campus. The bonds are to be special obligations of the auxiliary secured solely by the pledged revenues of the project and a mortgage of the acquired property. The financing transaction will not create any obligation of the state of California or the trustees.

ITEM

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Agenda Item 3
July 18-19, 2000

COMMITTEE ON FINANCE

Auxiliary Organization Tax-Exempt Financing at San Diego State University

Background

The university was approached by the owner of a 570-bed student housing facility (which is called El Conquistador) adjacent to the campus and informed that the project was to be sold within the next six months. The owner expressed a willingness to sell the project to the Aztec Shops Ltd. (Shops) before offering the project to non-university third parties. The university believes the project serves as an important housing resource for the university and will complement university-owned housing. The facility is currently 100 percent occupied by university students and enjoys academic year occupancy of approximately 93 percent.

El Conquistador is a privately owned and managed 570-bed facility with an attached cafeteria and a 175-car parking lot located on two acres. The facility, built in 1966, is immediately adjacent to the southeast boundary of campus. The project appears in good structural condition and has been well maintained. The facility is owned by Whitehall Partners, a partnership of College Park Communities (the nation's largest owner of off-campus student housing, that currently manages the project) and Goldman Sachs Real Estate. Shops will contract with College Park Communities to continue to manage the project.

Financing

Aztec Shops Ltd. (Shops), a recognized CSU auxiliary organization in good standing, is proposing tax-exempt borrowing in an amount not to exceed \$26 million to finance the acquisition. Aztec Shops Ltd. will issue bonds that will be special obligations of the Shops secured only by pledged project revenues and a mortgage of the project to bondholders. Two series bonds will be issued. The senior series of \$24 million are anticipated to qualify for investment grade rating. The remaining \$2 million will be issued as a subordinated series through private placement.

The Shops will obtain an appraisal and an independent engineer's structural report of the project. Negotiations with the owner indicate an estimated purchase price of approximately \$22.5 million. Cost for any needed repairs or needed structural upgrades will be paid by the owner.

The financial plans supporting the project estimates \$100,000 of net surplus revenues to the Shops in the first year of ownership after provisions for operating expenses, debt service, and repair and replacement reserves. The present value of the expected cash flow over 30 years from the project exceeds \$12 million. No equity investment from the Shops is required and the Shops intends to contract with the current manager to continue managing the facility.

The financing transactions will not create any obligation of the state of California or the trustees. Subsequent to the review of this item by the Board of Trustees, the chancellor will take the necessary action on behalf of the board to assist the auxiliary pursuant to the chancellor's delegation in the Board of Trustees' CSU Policy for Financing Activities.

Summary

The following summarizes key information for the proposed financing:

Financed amount not to exceed:	\$26 million
Term:	30 years
Projected rate (all-inclusive cost):	6.95 percent
Debt service coverage (project revenues):	1.20 times on senior bonds 2.20 times on subordinate bonds
Bond insurance commitment:	To be determined
Bond intrinsic rating before bond insurance:	Minimum investment grade rating expected for senior bonds, unrated subordinate bonds

Additional Information

On January 9, 1998, the IRS issued a private letter ruling permitting the categorization of certain auxiliary organizations as "an instrumentality of the state" for tax-exempt financing purposes. While the ruling related to a specific future auxiliary transaction not associated with this financing, Orrick, Herrington and Sutcliffe LLP (bond counsel to the trustees and also special counsel for the transaction described herein) indicates that if the circumstances that form the basis of the ruling are similar in other auxiliary transactions, those transactions may also be accomplished under the more streamlined procedures for issues by and for an instrumentality of the state. Orrick, Herrington and Sutcliffe LLP has reviewed the circumstances for the proposed financing and determined that they are substantially similar to the circumstances in the private letter ruling. Therefore, the Shops may take advantage of less restrictive provisions of the tax law and streamline some procedures that result in financing cost savings. The ruling also permits the subject organization to cause tax-exempt governmental obligations to be issued in its own name, without taking the additional steps and incurring the additional costs that are associated with the issuance of tax-exempt obligations through a third party governmental unit.

BRIEF

Action Item

Agenda Item 4
July 18-19, 2000

COMMITTEE ON FINANCE

State University House Trust

Presentation By

Brad Wells, Assistant Vice Chancellor
Financial Services

Summary

The State University House Trust is managed through an account established in 1991 by resolution of the Board of Trustees (RSUH 07-91-03). Under the terms of the board resolution, the use of the funds is limited to the operation, remodeling, furnishing, repairs, and replacements necessary to maintain the State University House. The chair of the board must approve annual expenditures from the trust account.

The board established two “spending rules” applicable to the trust. The spending rules must be reviewed every three years. This item reviews the spending rules and recommends several changes reducing the annual amount allowed for expenditure to ensure that the purchasing power of the trust is sustained in perpetuity.

Recommended Action

Approval of the resolution.

ITEM

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Agenda Item 4
July 18-19, 2000

COMMITTEE ON FINANCE

State University House Trust

Operation of the State University House

The State University House Trust is managed through an account established in 1991 by resolution of the Board of Trustees (RSUH 07-91-03). The balance in the trust account as of May 30, 2000, was \$1,888,200.

Under the terms of the board resolution, the use of the funds is limited to the operation, remodeling, furnishing, repairs, and replacements necessary to maintain the State University House. The chair of the board must approve annual expenditures from the trust account. Funds held in the trust are invested in the California State University unitized investment pool in securities (generally excluding equity investments) authorized under Government Code Section 16430 and Education Code Section 89724 and subject to the Board of Trustees' investment policy (RFIN 95-05-02).

The board established two "spending rules" applicable to the trust. The spending rules are required to be reviewed every three years. The two spending rules are the operating budget spending rule and the repair and replacement reserve spending rule. The operating budget spending rule limits the annual operating budget to 90 percent or less of the annual projected earnings. The repair and replacement spending rule requires an annual transfer to a sinking fund equal to or greater than 10 percent of the annual projected earnings. Together, these spending rules distribute 100 percent of the annual earnings on the total trust.

Potential Problems with the Spending Rules

The trust is intended to provide for the operation and maintenance of the State University House in perpetuity. The spending rules were intended to "retain some funds to increase the corpus of the account to combat the anticipated eroding effect of inflation." Since 1991, the trust has earned an annual average total return of about 6 percent. After deductions for operating expenditures, the trust corpus has grown over the same period at an average annual rate of 2 percent including the repair and replacement reserve.

During a difficult economic period for bond investments, such as we have experienced over the past year, the potential exists for earnings to decline. The operating budget spending rule, which bases the annual operating budget on earnings alone, can cause wide short-term fluctuations in the annual budget due to dramatic but short-term reductions or increases in earnings. In addition, the spending rules do not adequately protect the purchasing power of the trust because they do not consider the consequences of inflation explicitly by requiring a reinvestment of earnings in the operating trust.

Recommendations

Annual withdrawals from the trust must be set at a level that allows the remaining balance, assuming a reasonable rate of return, to keep pace with inflation and provide funding in the future to operate, maintain, and repair the State University House. Simultaneously, we need to protect the annual budget from wide variation on a year-to-year basis so that a significant but short-term drop in investment revenue does not negatively affect the maintenance of the State University House. The maximum spending level, or annual budget, should be set at a level which over the long run would leave a balance in the trust adequate to keep pace with inflation. Rather than short-term earnings, the maximum spending level should be based on long-range total return and inflation assumptions.

In a survey of 193 public and corporate pension funds, endowments, and trusts, the nominal long-term expected return ranges from 4 percent to 12.5 percent. Inflation assumptions from the survey ranged from a low of 2.5 percent to a high of 5.0 percent with an average of 3.5 percent. Given our investment policy, which precludes investments in equities, a long-range average annual return of 6 percent, which is weighted toward the low end of the survey range, is appropriate. An annual rate of inflation of 3.0 percent is reasonable and conservative based on current experience. Subtracting the inflation rate from the expected earnings rate leaves the percentage of the trust corpus that can be spent each year (the target spending rate) providing a reinvestment of earnings in the trust to provide adequate future income to meet the requirements of the trust.

Attachment A displays the estimated growth of the trust, in real dollars assuming a 3 percent rate of inflation over the next 10 years and using annual returns displayed in Attachment C. Attachment B displays the annual budget in nominal dollars using the same estimated annual returns. As displayed, the annual budget would decline slightly over the next 10 years under the proposed approach. The current approach budget would decline dramatically in the first three years and then grow dramatically over the subsequent seven years. As a result, the value of the trust would decline significantly, in real dollars displayed in Attachment A, under the existing spending rules. This is the type of volatility in annual budgets and trust fund value that the proposed approach would alleviate by smoothing the annual changes over the long term, avoid quick reactions to changes in earnings either up or down, and stabilize the value of the trust over the long term.

A target spending rate of 3 percent applied to the equivalent of a moving three-year average value of the trust yields a maximum spending level, or annual budget, that would allow the purchasing power of the remaining trust to keep pace with inflation. The FY 2000/2001 maximum spending level using these assumptions is \$73,368. Actual expenditures for the State University House over the past several years indicate that the maximum spending level, while lower than the amount allowed under the original spending rules, is sufficient to properly operate, maintain, and provide for the long-term renovation and repair of the State University House.

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Fin.

Agenda Item 4

July 18-19, 2000

The following resolution is proposed for approval:

RESOLVED, By the Board of Trustees of The California State University that the policies and procedures adopted by resolution of the board in 1991 (RSUH 07-91-03) are revised as follows:

Annual expenditures from the State University House Trust must be set at a level that allows the remaining balance, assuming a reasonable rate of return, to keep pace with inflation and provide funding in the future to operate, maintain, and repair the State University House. A maximum spending level shall be established each year calculated using a long-term earnings rate of six percent, an annual inflationary rate of three percent, and a target-spending rate of three percent. The Board of Trustees shall review these long-term assumptions every three years.

An annual operating budget not to exceed the calculated maximum spending level shall be approved by the chair of the board. Revisions to increase or decrease the annual budget shall be approved by the chair of the board.

ATTACHMENT A
Finance—Item 4
July 18-19, 2000

See printed Agenda for graph of State University House Trust Value In Real Dollars

ATTACHMENT B
Finance—Item 4
July 18-19, 2000

See printed Agenda for graph of State University House Annual Budget
Under Current Process and Proposed Process

ATTACHMENT C
Finance—Item 4
July 18-19, 2000

See printed Agenda for graph of State University House Trust Annual Total Return

BRIEF

Action Item

Agenda Item 5
July 18-19, 2000

COMMITTEE ON FINANCE

Joint Powers Authority at California State University, Stanislaus Stockton Center

Presentation By

Brad Wells, Assistant Vice Chancellor
Financial Services

Summary

This item requests approval of the formation of a joint powers authority with the City of Stockton to provide an appropriate governance structure to oversee the development, operation, maintenance, and financing of that portion of the California State University, Stanislaus Stockton Center not needed by the university for educational purposes. The proposed joint powers authority is in response to recommendations contained in the feasibility study for the development of California State University, Stanislaus Stockton Center dated April 1, 2000.

Recommended Action

Approval of the resolution.

ITEM

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Agenda Item 5
July 18-19, 2000

COMMITTEE ON FINANCE

Joint Powers Authority at California State University, Stanislaus Stockton Center

On May 10, 2000, the Board of Trustees received an update report on the California State University, Stanislaus Stockton Center. Since the report in May, the feasibility study that was authorized pursuant to Senate Bill 679 was completed. One of the recommendations included in the study was the creation of a separate joint powers agency established pursuant to the Joint Exercise of Powers Act of California. The proposed joint powers authority, known as the "Stockton Center Site Authority," will be responsible for the development, operation, management, and financing for that portion of the California State University, Stanislaus Stockton Center not required for educational use by the university.

The Proposed JPA

The joint powers agency would be formed through a Joint Exercise of Powers Agreement between the Trustees of the California State University and the City of Stockton, which will be distributed at this meeting once it has been approved by the Stockton City Council, which is expected to occur on July 18, 2000.

The governing board of the Stockton Center Site Authority will be composed of three members of the Stockton City Council appointed by the city and three members appointed by the chancellor. The Stockton Center Site Authority will have the power to assist the trustees by participating in financing or refinancing of facilities at the site that are within the Stockton Center Site Authority public and private development site, including planning and implementing a development plan approved by the trustees, as well as management and operation of the site. The Stockton Center Site Authority would also have the power to issue revenue bonds and special tax bonds to acquire, finance, construct, equip, maintain, operate, and lease buildings and other improvements for the site. The trustees will provide management services to the Stockton Center Site Authority and will follow the trustee policies and procedures in the exercise of powers on behalf of the Stockton Center Site Authority.

The executive vice chancellor and chief financial officer will serve as the treasurer of the Stockton Center Site Authority. The assistant vice chancellor for capital planning, design, and construction will serve as the executive director of the Stockton Center Site Authority and will provide day-to-day management oversight.

The formation of a joint powers authority for the California State University Stanislaus, Stockton Center will enable us to proceed with the planning, development, and financial planning activities for the site as contemplated in the feasibility study.

Recommendation

The following resolution is recommended for approval:

WHEREAS, Pursuant to the laws of the State of California, including the Joint Exercise of Powers Act (Sections 6500 and following of the Government Code of the State of California) (the “Law”), the City of Stockton (the “City”) and the Trustees of the California State University (the “Trustees”) desire to create a joint exercise of powers entity to be known as the Stockton Center Site Authority (the “Site Authority”) to develop and manage that portion of the California State University, Stanislaus Stockton Center not required for educational use by the Trustees; and

WHEREAS, Pursuant to the Law, the Trustees and the City shall create the Site Authority by entering into the Stockton Center Site Authority Agreement, dated as of July 19, 2000, in substantially the form presented to this meeting (the “JPA Agreement”); now, therefore, be it

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

Section 1. The JPA Agreement is hereby approved. The chancellor or his designee is hereby authorized and directed, for and in the name and on behalf of the Trustees, to execute and deliver the JPA Agreement with such changes therein as such officer determines are necessary and appropriate, and are approved by such officer, such approval to be conclusively evidenced by the execution and delivery of the JPA Agreement.

Section 2. The treasurer, the officers of the board, the chancellor or the executive vice chancellor and chief financial officer, or the assistant vice chancellor, campus planning, design, and construction are each hereby authorized and directed, jointly and severally, to do any and all things and to execute and deliver any and all documents which they may deem necessary or advisable in order to assist the City and the Site Authority with the development, operation, maintenance, and financing for the Stockton Center Site.

Section 4. This resolution shall take effect from and after its passage and approval.