

AGENDA

COMMITTEE ON FINANCE

Meeting: 2:00 p.m., Tuesday, July 10, 2001
Glenn S. Dumke Conference Center

William Hauck, Chair
Murray L. Galinson, Vice Chair
Robert G. Foster
Harold Goldwhite
Shailesh J. Mehta
Dee Dee Myers
Frederick W. Pierce IV
Kyriakos Tsakopoulos
Stanley T. Wang

Consent Items

Approval of Minutes of Meeting of May 15, 2001

Discussion Items

1. Status Report on the 2001-2002 Support Budget Update, *Information*
2. Selection of Investment Manager and Advisor, *Action*
3. Auxiliary Organization Tax Exempt Financing at California State University Los Angeles Update, *Information*

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

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

May 15, 2001

Members Present

William Hauck, Chair
Murray L. Galinson, Vice Chair
Laurence K. Gould, Jr., Chair of the Board
Neel I. Murarka
Dee Dee Myers
Frederick W. Pierce, IV
Kyriakos Tsakopoulos
Charles B. Reed, Chancellor
Stanley T. Wang

Other Members Present

Daniel N. Cartwright
Martha C. Fallgatter
Debra S. Farar
Harold Goldwhite

Chancellor's Office Staff

David S. Spence, Executive Vice Chancellor, Chief Academic Officer
Richard P. West, Executive Vice Chancellor, Chief Financial Officer
Christine Helwick, General Counsel
Jackie R. McClain, Vice Chancellor, Human Resources
Freda Otto, Administrative Officer in Charge, University Advancement
Karen Yelverton Zamarrilla, Assistant Vice Chancellor, Governmental Affairs

Approval of Minutes

The revised minutes of the January 23, 2001 meeting were approved.
The minutes of March 20, 2001 were approved.

Chair Hauck called the meeting to order at 2:58 p.m.

Status Report on the 2001/02 Support Budget

Chair Hauck asked Mr. Richard P. West, Executive Vice Chancellor and Chief Financial Officer to present the item. Mr. West explained that each year, the Governor introduces his budget in January, and then based on revenue estimates in the spring of each year, he introduces a May revision to that budget.

Mr. West then reviewed the May revision to the Governor's budget, noting that unlike the past few years, two significant factors have adversely affected the status of the current state budget. The state's growing energy costs, and the general economic slowdown have significantly impacted state revenue (which is what the state's budget is based on) resulting in a decrease in the original January Governor's Budget.

The May Revise provides for a \$233.4 million increase in CSU operating support from all General Fund sources including student fee revenue. While not the original amount requested by the trustees, or included in the January Governor's Budget, it does represent a general fund increase of approximately 8.5 percent over last year's budget for important initiatives.

Mr. West briefly explained the funding mechanisms and process by which the current budget figures were derived.

Some of the good news/bad news highlights of the report included:

Funding for all projected enrollment growth was preserved, and \$34.1 million has been provided for rising natural gas costs in 2000/01 (\$18.1 million in one-time funds) and \$15.5 million for 2001/02.

The May Revise provides support for a two percent compensation pool for all CSU employees. The original request of four percent was not supported due to reduction of the partnership funding contained in the May Revise.

Requests that were not funded included the dollars identified for libraries, deferred maintenance, outreach programs, and workforce initiatives. Funding for the Biotech Applied Research Initiative and Diagnostic Writing Service projects was also not provided.

Trustee Galinson said he was concerned about the lack of deferred plant maintenance money and how that would impact the university. Mr. West replied that there is deferred maintenance money in our base budget which allows the CSU to continue to make progress on our deferred maintenance backlog.

Trustee Pierce inquired if there would be any anticipated increase in electricity costs to the university. Mr. West referred to the current contract with ENRON that protects the university from inflationary costs through March 2002. Trustee Pierce then asked whether the campuses were budgeting for potential increases after that date, and Mr. West said they will be preparing for that possibility. He added that a more thorough presentation on energy conservation

strategies would be presented at the Committee on Campus Planning, Buildings, and Grounds on Wednesday, May 16, 2001.

Mr. West concluded by noting that there is some give and some take in this year's budget, but given the general status and economy of the state, this is still considered to be a good budget for the CSU.

Approval for the Issuance of Debt Instruments Supported by the Sonoma State University Parking System Revenue Bonds, Series A, and Related Matters

Mr. West reviewed the item requesting the board's authorization to issue debt instruments to finance the acquisition of approximately 31 acres of land and the construction of a 1,100-space surface parking structure at Sonoma State University. He assured the committee that funding for the project was solid despite general economic uncertainties.

A brief discussion took place regarding the CSU's bond ratings status during which Chancellor Reed commended Mr. West and his staff for their excellent work in that area.

Trustee Pierce asked whether capital outlay funds could be used to acquire land. Mr. West explained land could not be acquired with general or capital funds. However, land may be acquired through other funding sources, such as, surplus housing or parking fee revenues.

The committee recommended approval of the proposed resolution (RFIN 05-01-10).

Proposed Dissolution of Auxiliary Organization at California State University, Stanislaus-Stockton

The item requested approval for dissolution of a campus-based auxiliary set up by the CSU, Stanislaus campus to assist in the development of the Stockton Development Center. Mr. West explained the background of the organization and the reason for its dissolution.

The proposed dissolution will transfer net assets of the existing organization, the California State University Stanislaus-Stockton Auxiliary Services Corporation (ASC), to the Stanislaus Auxiliary and Business Services (ABS), its designated successor.

The governing boards of both organizations believe that the proposed dissolution of the ASC is in the best interests of the California State University and the Stockton Center Site Authority. Further, by transferring the remaining revenue to ABS, new programs will be established to enhance the services provided to faculty, students, and staff at the California State University, Stanislaus-Stockton Center.

Trustee Cartwright expressed concern regarding existing assets with the current organization and how this transaction will affect them. Mr. West assured him that assets and contracts currently held with ASC will be transferred to the new entity (ABS) and will be used in the manner originally intended for the support of university projects and activities at the Stockton site.

The committee recommended approval of the proposed resolution (RFIN 05-01-11).

Approval for the Issuance of the Debt Instruments supported by bonds of the California State University Housing Revenue Bond System for an Apartment Complex at California Polytechnic State University, San Luis Obispo and Related Matters

Mr. West explained the proposed project would add approximately 800 bed spaces to the campus' inventory to help meet the increasing demand for on-campus housing. The project will consist of 201 apartment-style units with four single-occupancy rooms arranged in seven buildings over a 15.7-acre hillside site. The project also includes a 5,000 sq. ft. commons building that will house administrative personnel and provide students with a location for social gatherings and meetings.

Chair Gould commented that this appeared to be a solid project and an important component in implementation of the campus' master plan. Mr. West added the project was developed through an extensive survey of students; and contains many of the elements students want to see in campus housing projects.

Trustee Pierce noted that based on his calculations, the cost per unit would be approximately \$238,000. He indicated this amount appeared to be on the high side and asked for clarification. President Baker acknowledged this, citing several factors such as, the need to import labor to the San Luis Obispo area, and the complications of building on a hillside site. Additionally, the cost of framing the facilities was much higher than originally estimated. These circumstances, and the desire to keep rental costs to students at an affordable rate, all factor in to the higher than normal unit cost. The president added that it was also necessary to build on this particular site at this point in time due to certain parameters and timelines contained in the campus master plan.

There were no further questions or comments.

The committee recommended approval of the proposed resolution (RFIN 05-01-12).

Financing Transaction for CSU San Bernardino Auxiliary Organization to Provide Construction Funds for Coachella Valley Off-Campus Center (CVC)

Mr. West explained that the item was being presented for information only at this time, and regarded a construction loan to be entered into by the CSUSB Foundation. The purpose of the loan is to provide a portion of the construction funds needed to complete Phase I of the Permanent Coachella Valley Off-Campus Center. The City of Palm Desert has agreed to provide a loan to cover the existing shortfall of \$1.2 million needed to allow construction to proceed on Phase I of the project.

Mr. West introduced Dr. Albert K. Karnig, President, of California State University, San Bernardino, who reviewed the scope and intent of the project, as well as the various funding sources and status of private donations connected to the project. He reported fundraising for the project was going well and said he was fairly confident that their goals would be met.

Mr. West emphasized that the loan from the City of Palm Desert is to the campus auxiliary and foundation, therefore minimizing the risk to the university.

Chancellor Reed concluded by complimenting President Karnig on his efforts and thanked the City of Palm Desert for their support and assistance with this important project.

The meeting adjourned at 3:25 p.m.

COMMITTEE ON FINANCE

Status Report on the 2001/2002 Support Budget

Presentation By

Richard P. West
Executive Vice Chancellor
and Chief Financial Officer

Summary

During the May 15-16, 2001 Board of Trustees meeting, details of the Governor's May Revision and comparisons of the Senate and Assembly budget bills were provided. These separate budget bills have progressed through the Senate and Assembly and as of this writing, are in the Budget Conference Committee. As the Budget Conference Committee meets to resolve the differences between the Senate and Assembly versions of the Budget Bill, they are grappling with the current and future impact of the state's energy crisis and general weakening of the economy. These issues suggest the possibility of further reductions in the General Fund Appropriation for all state agencies, including the CSU. The expectation as of this writing, is to hand out a summary of the actions leading to the final 2001/02 budget adopted by the legislature and signed by the governor.

COMMITTEE ON FINANCE

Selection of Investment Manager and Advisor

Presentation By

Richard P. West
Executive Vice Chancellor
and Chief Financial Officer

Summary

The contract with Metropolitan West, our current Investment Manager and Advisor for the CSU Investment Pool is due to expire. The Office of Financing and Treasury at the Chancellor's Office with the assistance of the Chief Administrative and Business Officer (CABO) Investment Committee issued a Request for Proposal (RFP) for a new contract. Vendor proposals have been reviewed by a selection committee composed of Chancellor's Office and interested CABO Investment Committee members. The trustees will be asked to approve the selected vendor at this meeting.

Background

At the January 1997 meeting, the Board of Trustees approved the creation of a centralized investment program to manage the investments of funds held in California State University trust accounts. In addition, the Board approved an investment policy consistent with the authority provided in existing statutes to guide the university in administering the investment program. A copy of the investment policy is provided in Attachment A. The Board also agreed that an external investment manager should be hired to invest the funds consistent with the investment policy of the Board of Trustees. The firm of Metropolitan West was hired through a competitive process to manage an investment program for the California State University.

The existing contract for the investment manager and advisor is due to expire. The Office of Financing and Treasury at the Chancellor's Office with the assistance of the CABO Investment Committee issued a Request for Proposal (RFP) to identify a successor manager. Three firms responded to the RFP.

A Selection Committee composed of Chancellor's Office personnel and a CABO Investment Committee member evaluated the proposals using set criteria. The evaluation scored each proposal on qualification/experience, quality of proposal, work plan/methodology, and cost. Cost was weighted at fifty percent of the overall score. The successful bidder and the firm recommended to this committee is Metropolitan West Securities. Metropolitan West Securities

was also the lowest bidder with a bid of \$1.3 million for 3 years on an average pool balance of \$349 million. The other two bids were \$2.6 million and \$2.8 million. The contract term shall be three years with an option to renew for additional term(s) based upon acceptable contractor performance.

Action

The following resolution is presented for approval:

RESOLVED, By the Board of Trustees of the California State University, that the trustees approve the selection of Metropolitan West Securities as the University's Investment Manager and Advisor for the next three years with optional renewal for additional term(s) based upon acceptable contractor performance.

The California State University Investment Policy

The following investment guidelines have been developed for CSU campuses to use when investing funds.

Investment Policy Statement

The objective of the investment policy of the California State University (CSU) is to obtain the best possible return commensurate with the degree of risk that the CSU is willing to assume in obtaining such return. The Board of Trustees desires to provide to each campus president the greatest possible flexibility to maximize investment opportunities. However, as agents of the trustees, campus presidents must recognize the fiduciary responsibility of the trustees to conserve and protect the assets of the portfolios and by prudent management prevent exposure to undue and unnecessary risk.

When investing campus funds, the primary objective of the campus shall be to safeguard the principal. The secondary objective shall be to meet the liquidity needs of the campus. The third objective shall be to return an acceptable yield.

Investment Authority

The California State university may invest monies held in local trust accounts under Education Code Sections 89721 and 89724 in any of the securities authorized by Government Code Section 16430 and Education Code Section 89724 listed in Section A subject to limitations described in Section B.

A. State Treasury investment options include:

- Surplus Money Investment Fund (SMIF)
- Local Agency Investment Fund (LAIF)

Eligible securities for investment outside the State Treasury as authorized by Government Code Section 16430 or Education Code Section 89724 include:

- Bonds, notes or obligations with principal and interest secured by the full faith and credit of the United States;
- Bonds, notes or obligations with principal and interest guaranteed by a federal agency of the United States;
- Bonds or warrants of any county, city, water district, utility district or school district;
- California State bonds or bonds with principal and interest guaranteed by the full faith and credit of the State of California;

- Various debt instruments issued by: 1) Federal land banks, 2) Central Bank for Cooperatives, 3) Federal Home Loan Bank Bd., 4) National Mortgage Association, 5) Federal Home Loan Mtg. Corp., and 6) Tennessee Valley Authority;
 - Commercial paper exhibiting the following qualities: 1) “prime” rated, 2) less than 180 days maturity, 3) issued by a U.S. Corporation with assets exceeding \$500,000,000, 4) approved by the PMIB. Investments must not exceed 10 percent of corporation’s outstanding paper, and total investments in commercial paper cannot exceed 30 percent of an investment pool;
 - Banker’s acceptances eligible for purchase by the Federal Reserve System;
 - Certificates of deposits (insured by FDIC, FSLIC or appropriately collateralized);
 - Investment certificates or withdrawal shares in federal or state credit unions that are doing business in California and that have their accounts insured by the National Credit Union Administration;
 - Loans and obligations guaranteed by the United States Small Business Administration or the United States Farmers Home Administration;
 - Student Loan Notes insured by the Guaranteed Student Loan Program;
 - Debt issued, assumed, or guaranteed by the Inter-American Development Bank, Asian Development Bank or Puerto Rican Development Bank;
 - Bonds, Notes or debentures issued by U.S. Corporations rated within the top three ratings of a nationally recognized rating service;
- B. In addition to the restrictions established in Government Code Section 16430, the CSU restricts the use of leverage in campus investment portfolios by limiting reverse repurchase agreements used to buy securities to no more than 20 percent of a portfolio;

Furthermore, the CSU:

- 1) Prohibits securities purchased with the proceeds of a reverse repurchase from being used as collateral for another reverse repurchase while the original reverse repurchase is outstanding;
- 2) Limits the maturity of each repurchase agreement to the maturity of any securities purchased with the proceeds of the repurchase (but in any event not more than one year) and;
- 3) Limits reverse repurchase agreements to unencumbered securities already held in the portfolio.

Investment Reporting Requirements

- A. Annually, the Chancellor will provide to the Board of Trustees a written statement of investment policy in addition to a report containing a detailed description of the investment securities held by all CSU campuses and the Chancellor's Office, including market values.
- B. Each campus will provide no less than quarterly to the Chancellor a report containing a detailed description of the campus' investment securities, including market values. A written statement of investment policy will also be provided if it was modified since the prior submission. These quarterly reports are required:
 - 1) to be submitted to the Chancellor within 30 days of the quarter's end;
 - 2) to contain a statement with respect to compliance with the written statement of investment policy and;
 - 3) to be made available to taxpayers upon request for a nominal charge.

COMMITTEE ON FINANCE

Auxiliary Organization Tax Exempt Financing at California State University, Los Angeles

Presentation by:

James M. Rosser
President
California State University, Los Angeles

Richard P. West
Executive Vice Chancellor
and Chief Financial Officer

Summary

At its meeting of March 20-21, 2001, the trustees were informed of the plans by the Cal State L.A. University Auxiliary Services, Inc. (corporation), a recognized auxiliary organization in good standing, to finance the planning and construction of a corporation building for various purposes serving the university, including a bookstore, cafeteria, restaurant, catering and banquet rooms and kitchen, extended education classrooms, and administrative space, retail space, offices for the Office of Research and Sponsored programs of the university and administrative offices of the corporation.

Subsequent to the review of this item by the trustees, the campus received several construction bids with the lowest bid moderately higher than anticipated. This was not an isolated case given that recent CSU projects have been impacted by higher than expected construction bids.

The campus and the auxiliary organization, in consultation and with the approval of the Chancellor's Office, revisited the project and proceeded to increase the financing from \$27,220,000 to \$30,405,000. The financing fundamentals still project healthy debt service coverage consistent with the information presented to the trustees at the March 2001 meeting. In addition, the campus presented a compelling immediate need to go forward to be able to provide campus food service as soon as possible with additional delays being detrimental to the campus.

Therefore, consistent with the CSU policy on Financing Activities approved by the Board in November 1998, the Executive Vice Chancellor and CFO authorized the campus to

proceed in completing the auxiliary organization financing at the \$30,405,000 bond sale level with the assurance that the Chancellor's Office would assist the campus in completing the financing. The following provides a side-by-side comparison of the financial requirements as presented to the trustees at the March 20, 2001 meeting and as the bonds were finally priced on June 7, 2001.

	Presented to Trustees on 3/20/01	As finally priced on 6/7/01
Financed Amount	\$27,220,000	\$30,405,000
Term	30	30
Estimated/Final rate (All-in TIC)	5.34	5.35
Rate not to Exceed	6.00	n/a
Projected/Final debt service coverage	1.69	1.49
Bond Insurance Commitment	MBIA	MBIA