

AGENDA

COMMITTEE ON FINANCE

Meeting: **2:30 p.m., Tuesday, July 16, 2002**
Glenn S. Dumke Auditorium

William Hauck, Chair
Shailesh J. Mehta, Vice Chair
Murray L. Galinson
Harold Goldwhite
Dee Dee Myers
Frederick W. Pierce IV
Erene S. Thomas
Kyriakos Tsakopoulos
Anthony M. Vitti

Consent Items

Approval of Minutes

Discussion Items

1. Status Report on the 2002/2003 Support Budget, *Information*

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

May 14, 2002

Members Present

Debra S. Farar, Chair of the Board
Murray L. Galinson, Vice Chair
Harold Goldwhite
Shailesh J. Mehta
Frederick W. Pierce, IV
Charles B. Reed, Chancellor
Kyriakos Tsakopoulos

Members Absent

William Hauck, Chair
Bob Foster
Dee Dee Myers

Other Trustees Present

Cruz M. Bustamante, Lieutenant Governor
Daniel N. Cartwright
Martha C. Fallgatter
Erene S. Thomas

Chancellor's Office Staff

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

Vice Chair Galinson called the meeting to order at 2:02 p.m.

Approval of Minutes

The minutes of March 13, 2002 were approved.

2002/2003 Budget Status

Vice Chair Galinson announced the May Revision to the Governor's budget had just been released. He then asked Mr. Richard P. West, executive vice chancellor and chief financial officer, to begin the discussion on the implications of the revision for the CSU.

Mr. West acknowledged he had just received the public disclosure of the governor's May Revision and had not yet had the opportunity to fully review it. Based on his current understanding, he said he would attempt to brief the committee on the perceived consequences of the revision.

Prior to commencing discussion, Mr. West introduced the Honorable Cruz M. Bustamante, Lt. Governor, State of California, and asked him if he wished to address the committee. The Lt. Governor spoke to the budget issue noting that the May revision was an extremely important exercise, however, it was simply the beginning of a long process, and was likely to change dramatically over the next several months. He indicated the next important piece in the process will come from the legislative side and his guess was that the senate would have a very different version of what was being looked at now. Mr. West thanked him for his remarks and for being at the meeting.

In context with the Lt. Governor's remarks, Mr. West noted it would be premature to become too comfortable with the numbers in the May revision. He agreed there would likely be further changes and that we need to be poised to deal with that possibility. Mr. West then reviewed the details, as he knew them, noting the changes between the January Governor's budget and the components in the May revision that will affect the CSU. Mr. West indicated that the governor has attempted several strategies that make one-time adjustments, borrowings, deferrals, or conversions of cash or debt, to reduce the costs in the budget year, however there are still substantial cuts for CSU.

On the more positive side, Mr. West noted an important reflection of the governor's priorities with the augmentation of \$19.5 million in the general fund for an additional one percent for enrollment growth in 2002/03.

In concluding his remarks, Mr. West informed the committee that all we can do for the moment is watch, wait, and participate in the process when appropriate. All things considered, in the context of a \$23.6 billion budget shortfall on a general budget base of about \$85 billion, it appears that higher education, and education in general, has been fairly well protected.

Non-Resident Tuition Fee Rate Increase

Chair Galinson explained that the item was intended to secure the board's approval to raise the non-resident student tuition rate by 15 percent. Mr. West reminded the committee that discussions on the issue had taken place at the January and March 2002 meetings.

The new fee for non-resident students would be \$9,888 per year, which still falls short of the actual cost of education of \$10,500. Mr. West noted it has been 10 years since CSU has implemented an out-of-state increase, and explained this was an attempt to bring CSU's rates more in line with what UC currently charges their out-of-state students.

Other significant factors supporting the issue include the reality of rapidly dwindling state revenues and the desire to relieve California taxpayers from subsidizing the education of non-resident students.

Trustee Daniel Cartwright raised several issues of concern from students including, the perceived link between the fee increase and salary increases, the need for an updated and comprehensive fee policy, and better communication with students to inform them of possible increases.

Lieutenant Governor Bustamante asked for clarification of the process, if any, of reviewing increases with the faculty and students. Dr. Charles B. Reed, Chancellor, responded that the issue had been raised with students last fall; however, there was no request for approval or for a vote.

The Chancellor acknowledged CSU has not adjusted its non-resident fees since 1992 and that it was now time to catch-up. He also agreed it was a good idea to look at the general policy and to consider updating it to reflect more predictable, periodic adjustments.

Trustee Campbell indicated his support of the resolution, and said he felt that the fee policy has actually been very effective. He pointed out there have been definable increases during the past several years, however, the state has chosen through the legislature, to buy them out. As a result, CSU is now the most affordable state institution of higher education in the country. He cautioned that the next few years will be difficult ones and that future fee increases are likely to happen.

Several other trustees voiced their support along with concerns regarding the proposed increase. Chair Galinson said he was pleased to hear the points of concern and support for the recommendation, and agreed with Trustee Cartwright's suggestion of bringing these issues to the senate and the students as part of the process. He also indicated it would be a good idea to look again at the fee policy to assure it is where we want it to be.

The committee recommended approval of the proposed resolution (RFIN 05-02-07).

California State University Systemwide Revenue Bond Sale

Mr. West reviewed the chain of events leading to approval by the board in March, of a new Systemwide Revenue Bond Program. Since the March meeting, CSU has successfully accomplished its first bond sale transaction under the new program.

Mr. West reported that improved rating agency reports were a key aspect of the sale. He credited several other factors, including moving from a project-by-project, to a more system oriented approach; and recognition of auxiliaries as part of our overall debt structure, as having additional influence on CSU's overall rating.

As a result of the restructuring of our debt program, there will be a change in the way related board items are presented. Because the underlying structure of the program is to move to more of a pool approach, bonds will be sold on a once or twice a year basis, or more frequently should market conditions experience significant change. Mr. West reiterated the overall idea is, that in this reasonably stable interest market, to accumulate projects and then sell them at a certain point, (perhaps the \$100 million level).

Trustee Pierce asked about the All-In Total Interest Cost and whether that meant this is an all fixed rate structure. Mr. West replied that was correct. Trustee Mehta then asked if we knew what our total net savings would be compared to our prior process. Each project in the Commercial Paper/Systemwide Revenue Bond program will have a different saving rate depending on many factors. Subsequent analysis of the first two projects put into Commercial Paper last February shows a present value of \$394,000 on a total project cost value of \$25.1 million. Savings for the other projects with shorter durations in Commercial Paper will be proportionally less.

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

Chair Galinson announced there were three projects to be presented for consideration. He then asked Mr. Dennis Hordyk, assistant vice chancellor, financial services, to present the item.

Mr. Hordyk reiterated that as Mr. West indicated earlier, the format of the item before the committee was different than in the past. The new format will be to present a summary of the impact of projects brought forth during each session, and then to move on to the individual items. The current intent is to present specific write-ups on each individual project, as well as the resolutions for each individual project.

For this current session, authorization is requested for the issuance of systemwide revenue bonds and interim financing under the commercial paper program, for construction of three projects previously approved through the non-state funded capital program.

The first project is a request by California State Polytechnic University, Pomona, to construct a student housing facility. The project received a positive recommendation from the Housing Proposal Review Committee and the campus has completed planning, and received construction bids. The total project cost is estimated to be \$26 million with \$4.2 million being contributed from the campus housing reserve.

Mr. Hordyk pointed out the financing request for this item is for an amount not to exceed \$25,860,000, with an estimated total cost of \$26 million. He explained the reason for the differing amounts was an attempt to err on the conservative side by increasing the amount of estimated costs by 50 basis points. When the bonds are actually sold, it is likely, (but not a certainty), that substantial savings could occur given the relatively stable market conditions. The higher estimated amount is simply an attempt to be conservative.

Trustee Pierce requested that the board be kept apprised of all movement on these projects since we appear to be in a rising interest market which could affect this financing approach. Mr. West assured him that would happen.

The second project is a request from CSU, Sacramento, to construct a facility to house the CSU Sacramento, Capital Public Radio Station facility. The Sacramento facility provides programming for five radio stations. The financing request is for an amount not-to-exceed \$4.2 million.

Mr. Hordyk explained the financing transaction would not go forward unless: market assumptions of the financing plan were made valid; there are acceptable construction bids that are consistent with the financing plan; and the station's board approves an acceptable financing lease.

The third and final project is a request by CSU, Northridge, to finance the construction of a new food services facility to be located next to Sierra Hall on the campus. Mr. Hordyk reviewed the scope of the project as reflected in the written agenda item.

The project, when completed will be operated by the CSU University Corporation, an auxiliary organization in good standing. Due to the limited time available to convert this project to a Board financing under the Systemwide Revenue Bond Program, the Corporation's board has not approved the terms of this financing, however, they are scheduled to review the transaction and the project after this meeting of the Board of Trustees.

Due to the involvement of an auxiliary, Trustee Pierce inquired about how the collateral transaction was structured to allow for the cross-collateralization and financing to be implemented. Mr. Richard K. Leffingwell, senior director, financing and treasury, replied that this project will be issued as a financing lease and will essentially be on a parity basis with the existing debt that is owed by the Corporation. In other words, we purchase the land and they

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lease it. We will build the buildings and lease to them. They in turn, will operate the function/services out of our building.

Mr. Hordyk noted this would be the first CSU auxiliary organization capital project to be financed under the new Systemwide Revenue Bond Program.

The committee recommended approval of the proposed resolution (RFIN 05-02-08).

Private Sector Participation in the Development of a 49.5 Acre Avocado Orchard at California Polytechnic State University, San Luis Obispo

Mr. Hordyk explained that at the March board meeting, the San Luis Obispo campus requested and obtained, conceptual approval of this project.

Through an educational program agreement with Mission Produce, the company would operate a commercial scale avocado orchard on university agricultural land for a period of 30 years. The orchard would provide educational facilities and enable the university to establish an interdisciplinary hands-on instructional program related to commercial-scale avocado production. The facility would provide invaluable experience for students in the areas of orchard management, avocado production, pest and disease management, and irrigation management.

President Baker noted the project was similar to one the campus successfully implemented last year for grape production. He said the project would provide a substantial asset to the campus for field lab work with students, internships, and other expertise, as well as serving as an education laboratory for instruction and applied research.

The committee recommended approval of the proposed resolution. (RFIN 05-02-09).

The meeting adjourned at 2:58 p.m.

COMMITTEE ON FINANCE

Status Report on the 2002/2003 Support Budget

Presentation By

Richard P. West
Executive Vice Chancellor and
Chief Financial Officer

Summary

During the May 14-15, 2002 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 budget shortfall and general weakening of the economy. As of this writing, the conference committee has approved budget support appropriations for CSU that reflect actions taken in the Senate budget bill. The CSU budget has not been closed pending action on two member requests and a means to address the budget shortfall. The expectation as of this writing is that the outstanding budget items will be resolved and that a summary of the actions leading to the final 2002/03 budget adopted by the legislature and signed by the governor will be handed out at the meeting.