

## **AGENDA**

### **COMMITTEE ON FINANCE**

**Meeting: 2:30 p.m., Tuesday, July 13, 2004**  
**Glenn S. Dumke Auditorium**

William Hauck, Chair  
Shailesh J. Mehta, Vice Chair  
Roberta Achtenberg  
Debra S. Farar  
Bob Foster  
Eric Guerra  
Kathleen E. Kaiser  
Frederick W. Pierce IV

#### **Consent Item**

Approval of Minutes of Meeting of May 19, 2004

#### **Discussion Items**

1. Report on the 2004/2005 Support Budget, *Information*
2. Report on the Consultation Process to Develop a State Funding and Student Fee Policy, *Information*
3. Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for Various Projects, *Action*

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

**May 19, 2004**

**Members Present**

William Hauck, Chair  
Shailesh J. Mehta, Vice Chair  
Debra S. Farar, Chair of the Board  
Roberta Achtenberg  
Kathleen Kaiser  
M. Alexander Lopez  
Frederick W. Pierce, IV  
Charles B. Reed, Chancellor

**Members Absent**

Ricardo F. Icaza

**Other Trustees Present**

Robert G. Foster  
Murray L. Galinson  
Eric Guerra  
Kyriakos Tsakopoulos  
Anthony M. Vitti

**Chancellor's Office Staff**

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

Chair Hauck called the meeting to order at 8:20 a.m.

**Approval of Minutes**

The minutes of March 16, 2004 were approved.

**Report on the 2004/2005 Support Budget**

Trustee Hauck asked Mr. Patrick Lenz, assistant vice chancellor, budget development to present the report.

With the aid of a PowerPoint presentation, Mr. Lenz apprised the committee on the latest budget updates based on the May Revise and provided information on the potential for various legislative actions in the immediate future.

Some of the topics covered included: enrollment and the redirection of students to the community colleges; potential cuts to academic institutional support and outreach programs; fee increases at the undergraduate and graduate levels; excess units; and mandatory costs.

Mr. Lenz also reviewed the contents of the written agenda item, and provided a detailed overview of the new Governor's Compact with UC and CSU. Mr. Lenz characterized the Compact as a floor on which the CSU will be able to proceed with the necessary steps to build a viable budget for the future.

Mr. Richard P. West, executive vice chancellor and chief financial officer, invited two campus presidents to comment on the compact. Dr. Norma S. Rees, president, CSU, Hayward, and Dr. Rollin C. Richmond, president, Humboldt State University, addressed the committee and spoke about how the implementation of the new compact would affect their respective campuses. In particular, the presidents cited the compact would assist in delaying and hopefully alleviate the need for faculty and staff layoffs and would allow campuses some predictability for budget planning in the near future. Both presidents concurred that the compact will be a good thing for the CSU and the state.

Trustee Achtenberg said she was unclear about the history and timeframe of the partnership/compact and thought there was one year during which the partnership/compact was not respected. Mr. Lenz explained the chronology and noted that in 2001/2002 the partnership was only partially funded due to the availability of some one-time revenue, and that the partnership was not funded at the anticipated level during that fiscal year.

Dr. Robert Cherny, chair of the academic senate, expressed the senate's general acknowledgement of the compact, however, he indicated there are still some academic policy items that will need to be more fully detailed.

Trustee Galinson said he wished to compliment Chancellor Reed on the negotiation of a fair compromise under the worst possible circumstances. He said he felt Chancellor Reed had the best interest of the students in mind at all times, and applauded the Chancellor's efforts to protect faculty and staff during the difficult negotiations. He said he views the compact as a generally positive accomplishment. It allows us to know overall what our budget is going to be, (or the "floor" of our budget), for the next several years and that it will be extremely helpful for future planning.

Trustee Galinson also indicated he still has some concerns, particularly about fees, but said he would vote for including the fee increase. He said he hoped the administration in the Chancellor's Office would look at ways to bring some relief to graduate students who are working toward obtaining a teaching certificate or nursing degree in order to reduce the added financial burden placed on them.

Trustee Lopez echoed Trustee Galinson's comments and concerns indicating he generally agreed with the terms of the compact and its benefits to the CSU, however, he said he still had some concerns regarding fees.

Jose Solache, president, the California State Student Association, said the students do not object to the concept of the compact. He cited concerns that are not addressed in the compact, i.e., student fees (short and long-term), an excess units policy, and enrollment growth, and urged the board to pursue any efforts in those areas that would assist students in planning for a stable future. However, for those reasons, he stated the CSSA could not support the compact.

Trustee Hauck reminded the committee that in the early 1990's the board adopted a policy that would have provided stability while recognizing that funding for CSU, and fees related to CSU, are always subject to what the governor and the legislature ultimately provide to the system. He said he believes that this system has been as aggressive as it possibly could be since that time in pursuit of funding in addition to a partnership or compact. However, the decision ultimately remains with the legislature and the governor.

Trustee Mehta asked if other funding could be sought in addition to the compact provisions. Mr. Lenz responded there is nothing precluding us for asking for more and reiterated the compact represents a 'floor'. He said it was possible to return and identify requests over and above the compact and receive an agreement from the legislature.

The following persons spoke about their concerns regarding the fee increase proposal: John Travis (President, CFA); H. Okahana, (student, CSULB); Angelo Williams, (staff to Senator Gloria Romero); Lillian Taiz, (CFA representative); Blanca Casteneda, (graduate student, CSULA); and Elizabeth Hoffman, (CFA representative).

Trustee Hauck thanked the speakers for their comments.

### **Report on State Funding and Student Fee Policy Development**

Mr. West introduced Ms. Karen Y. Zamarripa, assistant vice chancellor, advocacy and institutional relations. Mr. West explained Ms. Zamarripa has been the lead person in the fee discussions with various groups and asked her to present an update to the board on those discussions.

Fin.

Ms. Zamarripa reminded the committee of the request from the board last fall, to examine the current CSU fee policy and bring forward recommendations for the long term. Ms. Zamarripa reported she has been working closely with the System Budget Advisory Committee (SBAC), the California State Students Association (CFA), and the CSU Academic Senate to provide recommendations relating to an update of our current fee policy.

Using a PowerPoint presentation, Ms. Zamarripa presented a brief background and history of CSU fee policies and an update on where things are in the development of recommendations to the board.

She explained what the groups are trying to do is reaffirm some of our historical commitments, i.e., that the increases be gradual, predictable, and moderate, but also to recognize the fiscal realities we are dealing with.

Ms. Zamarripa reported on her conversations with student leaders. She indicated there have been good discussions and they have worked through a number of issues together, and in many cases, have come to a general agreement about where we are going. In particular, it is generally agreed that the majority of responsibility for funding of the CSU is with the State of California and that any proposed fee policy needs to be gradual, moderate, and predictable.

Additional principles include working together to ensure that federal, state, and institutional financial aid provides for affordability, and that reasonable notice be given to students, including any mid-year adjustments.

Another provision is to provide an annual report to the board to track the fee policy and the state's funding commitment, the financial aid investments we are making and determining where we are in the context of the students' fee levels and their share of the cost of education.

It was also generally agreed that fees should be adjusted annually over a period of time to reach a designated percentage of the cost of education and thereafter consider an indices. And that we continue the practice of setting aside a portion of those revenues for state university grant programs.

Ms. Zamarripa indicated the next steps at this point are, to continue to work with the students, the academic senate, and the SBAC to resolve differences on the cost of education and how to implement that proposal. WE also need to begin discussions about a graduate education item, and to continue to work with the administration and the legislature on our current policy, the 2004/2005 budget, and legislative proposals currently working through the legislative process.

Trustee Pierce commented that he thought the proposed policy bears merit, however, he was not confident that we will be able to keep pace with actual costs. He recommended inclusion of some type of recalibration provision that will allow us to get back on target in the event of the inevitable roadblocks ahead.

Mr. West agreed and said that will be one of the goals of the final report which is to look at affordability, the cost of education, and a form of recalibration each year.

Trustee Lopez said he believed in the value of the long-term fee policy but expressed his frustration with its unpredictability and potential for dramatic fluctuations.

Trustee Mehta inquired if there was a way to create endowment funds for future subsidies. Mr. West explained that in the early 1990's the board endorsed a development function for the CSU to establish a goal of 10% of the general fund and the operating budget of the university as a goal for all campuses to achieve through outside activity. It has been discovered that 97% of those dollars are designated and are therefore restricted. However, there is a small contribution which helps enhance the academic program.

Trustee Kaiser asked if there would be some way of controlling the percentage of increase by imposing a cap or by setting an adjustment rate. Trustee Hauck replied there is no guarantee that doing so would help because we are a publicly supported university system and totally dependant upon the state general fund for the operating support of the CSU.

Jose Solache, president, CSSA, thanked the administration and Ms. Zamarripa for her leadership in engaging the students in this important process.

#### **2004/2005 State University Fee and Nonresident Tuition Increases**

Mr. Lenz recapped the item noting it calls for approval of a proposed student fee increase as follows:

A 14% increase in undergraduate fees; 20% for certificated and non-resident students; and 25% for undergraduate students for the 2004/2005 fiscal year.

Trustee Lopez said he could not support the fee increase, however, he indicated this did not reflect his position on the compact and its general purpose. He thanked Chancellor read and the CSU leadership for their efforts to preserve access to a quality education at the CSU and urged them to consider affordability as a top priority in the future.

Trustee Mehta inquired whether the fee revenue increase would limit our ability to return and ask for additional funds. Chancellor Reed assured the trustee it would not interfere with CSU's right to do so.

Trustee Pierce said he was willing to support the increase although it was not a preference. He said the alternatives of redirection of students, and implementation of faculty and staff layoffs leave no other option but to adopt the policy.

Trustee Pierce commended Chancellor Reed for his tireless efforts and thanked him for producing a more palatable solution to the issue.

The committee recommended approval of the proposed resolution (RFIN 05-04-05).

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

Mr. Dennis Hordyk, assistant vice chancellor, financial services presented the item. He clarified there were two projects requiring the trustees' approval at this meeting.

He explained the item requests authorization for issuance of systemwide revenue bonds and interim financing through the commercial paper program, in an aggregate amount not-to-exceed \$36,525,000. Mr. Hordyk noted that the two projects had been previously approved through the non-state funded capital improvement program.

The first project request was from the San Bernardino campus to finance construction of a student recreation center and multi-purpose facility. Mr. Hordyk briefly reviewed the details of the project as set forth in the agenda item. He noted a concern that was expressed in the agenda item about one of the debt service coverage ratios and informed the committee that the issue had been resolved.

The second project request was from San Diego State University to finance construction of a new 69,000 gross square foot student health services building to replace the existing health facility. Mr. Hordyk pointed out that the written agenda item referenced the need to obtain the title to the property prior proceeding and noted that had been accomplished.

Trustee Pierce stated that while he did not have an interest in the project, he would recuse himself from voting on this resolution due to an interest in a proposal on the site of the existing health facility.

The committee recommended approval of the proposed resolution (RFIN 05-04-06).

The meeting adjourned at 10:15 a.m.

## **COMMITTEE ON FINANCE**

### **Report on the 2004/2005 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 actions by the Senate and Assembly budget subcommittees, the actions of the two-house budget conference committee, and the final actions on the 2004/05 CSU budget.

#### **2004/05 Support Budget**

Last November, the CSU Board of Trustees approved a budget request of \$3.169 billion for the 2004-05 fiscal year, which included a request for an increase in funding of \$546.6 million. In approving this request the Board established several priorities for this budget including authentic student access, preserving the quality of the instructional program, restoration of prior year budget reductions (\$234.6 million) and funding for mandatory costs (\$57.5 million). The budget request demonstrated to policy makers that the CSU is faced with overwhelming demand for student access and that resources are essential to meet these basic priorities.

Unfortunately, the possibility of receiving an additional \$546.6 million to meet the University's budget priorities was diminished because California was facing a \$30 billion budget deficit and the election of a new Governor who had committed to immediately address the state's fiscal crisis. Shortly after the Board approved the proposed 2004-05 budget, the Governor's Office and Department of Finance implemented an additional 2003-04 budget reduction of \$28.3 million to the CSU budget. This action was followed by the Governor's 2004-05 proposed budget, presented in January 2004, that called for a \$239.7 million General Fund reduction for the University, increasing student fees (10% undergraduate, 20% nonresident, 40% graduate) and proposed three new initiatives related to students taking excess units, redirecting first-time freshman to the community colleges, and implementation of a long-term student fee policy.

As a result of the mid-year cut and the proposed reductions for the 2004-05 budget the CSU developed an enrollment management plan to reduce by 5 percent the number of students the campuses would admit for the 2004-05 academic year. This meant that CSU would admit fewer students in 2004-05 (16,747 Full-Time Equivalent Students, FTES) than would be served at our campuses in 2003-04. Reducing enrollment was consistent with the Chancellor's commitment that CSU campuses would serve only those students the state had an ability to fund. In addition, the University made a commitment to provide "authentic access" to enrolled students, which means students admitted to the university would be able to enroll in and receive the courses needed to make progress toward their degree.

Beginning with Chancellor Reed's overview presentation on March 8, before the Senate Budget Subcommittee on Education, the Senate and Assembly budget subcommittees began reviewing the budget issues identified in the Governor's January budget proposal. The budget subcommittees have heard from the Department of Finance (DOF) on the specific recommendations in the Governor's budget and from the Legislative Analyst Office (LAO) on its alternative budget approach to funding higher education. The major issues of concern include enrollment levels and admissions, outreach and academic preparation programs, the Educational Opportunity Program (EOP), student fee levels, State University Grants and the Student Aid Commission Cal Grants financial aid programs, and capital outlay projects.

The CSU has continued to work with the administration and the legislature on the three policy proposals contained in the January budget, such as the redirection of first-time freshman, students taking excess course units, and a long-term student fee policy. However, Chancellor Reed indicated to the Governor and the legislature that enrollment reductions and increasing student fees are the only options available to CSU when facing a \$240 million budget reduction for 2004-05 fiscal year, on top of the \$300 million budget reduction the University received in the 2003-04 fiscal year.

The budget subcommittees thoroughly reviewed the Governor's proposed budget recommendations and allowed considerable testimony from DOF, the LAO, CSU, and the public. Prior to taking final action on the Governor's January budget proposal, the Governor announced a Compact for Higher Education with the California State University and the University of California. This Compact represented an understanding that the CSU and UC would manage the budget reductions proposed for 2004-05, but the two higher education systems would receive a long-term funding agreement from the Governor beginning in the 2005-06 fiscal year. The legislature objected to the reductions proposed for 2004-05 in the budgets of both CSU and UC.

In their final actions, the Senate approved an augmentation of \$247.4 million and the Assembly \$218.6 million to address CSU funding priorities that include enrollment growth, outreach programs, cost-of-living adjustment, and funding to offset increases in student fees. Both

subcommittees took action to deny the Governor's proposed redirection of first-time freshman to the community colleges and reject the implementation of an "excess units" recommendation.

The Assembly took further action to add Budget Bill Language (BBL) to redirect up to \$1 million for another study of the Common Management System (CMS), to redirect \$800,000 from the Chancellor's Office budget to the Academic Senate for a pilot program on technology assisted course redesign, and Supplemental Report Language (SRL) regarding campus implementation of funding appropriated in the 2004-05 budget. At this point, the two-house budget conference committee has acted upon few issues and the legislature has not concluded its budget negotiations with the Governor.

The Board will be provided with the latest budget update on the 2004-05 CSU budget at its July Board meeting.

## **COMMITTEE ON FINANCE**

### **Report on the Consultation Process to Develop a State Funding and Student Fee Policy**

Presentation By

Richard P. West  
Executive Vice Chancellor and  
Chief Financial Officer

Karen Y. Zamarripa  
Assistant Vice Chancellor  
Advocacy and Institutional Relations

#### **Background**

In response to California's fiscal crisis of the early 1990s, the Board of Trustees in 1993 adopted a student fee policy and financial aid pricing and payment proposal designed to stabilize fee increases in an environment of budget-driven enrollments. The 1993 fee policy was based on a two-thirds/one-third split in the cost of education, with the state providing two-thirds of the cost. In addition, the policy included the following major principles:

1. It is the state's responsibility to determine how many students may study at CSU by the level of support it provides;
2. Fee revenues will be used to improve and support the quality of the educational program;
3. There is a differential cost in providing graduate and undergraduate education;
4. There should be no restriction on the use of fee revenue to improve instruction; and
5. Changes in fee policy must be accompanied with reformed and enhanced student financial aid policies and award programs.

Through 1996, the setting of systemwide student fees at California public postsecondary institutions was governed by the Maddy-Dills Act, which had been enacted by the Legislature in 1985 to provide for a statewide fee policy. The Act required fees to be (1) gradual, moderate and predictable; (2) limited fee increases to not more than 10 percent a year; and (3) fixed at least ten months prior to the fall term in which they were to become effective. The policy also required sufficient financial aid to offset fee increases.

The provisions of the Act were set aside in the Budget Act for several consecutive years during the last fiscal crisis to help address General Fund reductions to the CSU's operating budget (this was also true of the University of California). In 1996, the Act was allowed to sunset and, since that time, the state has had no statutory long-term policy to set mandatory student fees.

Given the unpredictable nature of student fees since that time – with reductions being implemented at the state level in good economic times, and increases adopted recently to help cope with the current fiscal crisis – there have been numerous efforts to develop a long-term policy to provide stability and predictability for students and the institutions alike regarding fees. In 2002, reports recommending a fee policy were released by the Legislative Analyst’s Office and the California Postsecondary Education Commission, and in 2003 legislation was introduced by the Assembly Higher Education Committee, Assembly Member Manny Diaz, and Assembly Member Shirley Horton that would have placed a fee policy in the Education Code. None of the bills advanced further than the Assembly Appropriations Committee.

Last fall, the Board requested Chancellor Reed to review the policy adopted in 1993 and to recommend any necessary modifications to the system’s existing long-term student fee policy. The Chancellor’s Office has been working with the Executive Council (campus Presidents), leadership of the California State Student Association (CSSA) and the Statewide Academic Senate of the CSU (ASCSU) to evaluate the important components of such a policy, in close consultation with the Systemwide Budget Advisory Committee (SBAC). The revised policy under discussion with CSSA, ASCSU and the Presidents is designed to reaffirm the University’s historic commitment to ensuring authentic access and maintaining quality at CSU, while recognizing the fiscal challenges that confront both the State and the system. The policy would provide a measure of predictability and stability to students in planning campus costs, and also to campuses and the CSU system as a whole in managing resources to best meet the needs of students.

As the policy discussions have evolved, it has become clear that the level of funding provided to CSU by the state must be linked with the level of fees charged to students. For the policy to successfully meet its objectives, the state must meet its commitment to provide adequate funding to the system. Should that not occur, the policy would provide the Board with sufficient flexibility to set fees outside the parameters that are described below.

The adoption of a state funding and student fee policy will institute a level of accountability on the setting of fees for the Board, the Chancellor and campuses, and students; but also for the state and the public. With the policy in place, CSU will be in a better position to hold state policy-makers accountable for their decisions regarding higher education funding.

### **Status of Fee Policy Discussions**

Discussions among the Presidents, the current leadership of the CSSA and ASCSU have agreed to the following key principles, which are consistent with existing system policy. The principles affirm the essential component of any successful policy: the requirement for adequate state financial support to the University.

- The state shall fund CSU at the levels necessary to support the state's Master Plan for Higher Education.
- It is the responsibility of the state to support access, while student fee revenues shall be utilized to invest in teaching and learning and affect quality improvements in instructional programs and the services necessary for students to achieve their academic objectives.
- The state shall bear the preponderance of responsibility for funding the cost of education for all eligible students, and resident undergraduate and graduate student fees shall remain as low as possible.
- Any increase in systemwide fees should be gradual, moderate and predictable, taking factors into account including the cost of educating students at CSU; the current share of that cost borne by students and the state; and the availability of federal, state and institutional aid to maintain access and affordability.
- Systemwide financial aid policies should take into account a student's ability to pay, and should be aligned with the distinct functional needs of the CSU's student population and student fee levels.

The policy principles also call for adequate notice on proposed fee adjustments, an annual report to the Board on the status and impact of state funding levels, student fees and financial aid policies, as well as a statement that student fee revenues would remain with the CSU system to fund programs that benefit CSU students.

After a considerable amount of discussion, general agreement was also reached that:

- Undergraduate student fees should be adjusted on an annual basis over a specified period of years until they reach a level which is the equivalent of a set percentage of the average cost of education per full-time student;
- Once the fees reach that level, they would then be adjusted annually based on the California per-capita income;
- CSU would continue to set aside a portion of new fee revenue for the State University Grant (SUG) program.

The cost of education would be defined as the average cost per student based on the total General Fund appropriation, plus State University Fee Revenue for the CSU in the year prior to the fiscal

year in which fees will be assessed. The Board would adopt the annual fee adjustment as part of the budget request submitted to the Governor and Department of Finance each Fall to ensure students and families have adequate notice of fee adjustments for the upcoming academic year.

A critical component of the policy would be an annual cost of education report, to be presented to the Board no later than September of each year to assist the Chancellor in the development of the final budget request for the upcoming fiscal year. At this point the Board would have the opportunity to determine whether the state has met its commitment of ensuring the University has been provided adequate funding to achieve its responsibilities.

### **Open Issues Under Consideration**

At this juncture there are a few policy issues that will need further discussion among the parties before the chancellor can recommend a comprehensive state funding and student fee policy proposal to the Board. The first issue is the percentage share of the cost of education that fees should cover. The second outstanding issue is in regard to a cap on increases in any given year and the number of years needed to fully achieve the percentage share fees would cover of the overall cost. Finally, all discussions to date have focused on undergraduate fees so that the remaining issue is integration of graduate student fee levels into the overall policy proposal.

### **State Capitol Actions**

Assembly Members Carol Liu (D-La Canada/Flintridge), Chair of the Assembly Higher Education Committee, and Manny Diaz (D-San Jose) have introduced Assembly Bill 2710 which also would enact a long-term student fee policy in statute. In its current form, the bill includes provisions that: a) increases in student fees shall be coupled with corresponding increases in state and institutional financial aid; b) the state should fund 30 percent of the costs of education for undergraduate students; c) undergraduate fees should not be increased by more than 8 percent in any academic year; and d) except in fiscal emergencies, student fees should be adjusted by the annual changes in statewide per capita personal income.

The budget released by Governor Schwarzenegger in January 2004 included a proposed long-term student fee policy, originally outlined in Senate Bill 1535 (Karnette). However, that legislation was substantially amended in the State Senate, and subsequently dropped by the author. The key components of the Administration's fee policy are contained in the Higher Education Compact that was announced in May.

The Compact proposes a three-year level of fee increases for CSU and UC undergraduate students that will average 10 percent in each of the coming three years. In 2004/05, student fees will increase 14 percent, and in 2005/06 and 2006/07, they will increase 8 percent each year. For CSU graduate students, fees will increase 25 percent in 2004/05, except that teacher credential

candidate fees will increase 20 percent. For the following two years, it is expected that CSU graduate fees will increase by no less than 10 percent. The Board of Trustees adopted the 2004/05 fee increases at the May board meeting.

The Schwarzenegger administration expects CSU graduate student fees to eventually reach levels that make them 50 percent higher than undergraduate fees, in recognition of the cost of these programs and the expected higher earnings these students will make once in the workforce. In the years 2007/08 to 2010/11, the Governor has recommended that any fee increases be tied to an annual California per capita personal income. However, he has given the Board the power to exceed that number if fiscal circumstances warrant, but not above 10 percent in any given year.

**COMMITTEE ON FINANCE**

**Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for a project at California State University, Hayward**

**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 \$12,960,000 to provide needed funds for an expansion to the Hayward student union. The long-term bonds for the project 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 project is as follows:

**California State University, Hayward University Union Expansion Project**

Previously, the Board of Trustees approved the amendment of the Nonstate Funded Capital Outlay program and schematics for the university union expansion project. In February 2000, the California State University, Hayward students voted to support an increase in student body center fees to expand the student union. The university union expansion project will provide approximately 29,000 gross square feet to be used for student organizations, food service, meeting rooms, student lounge and study spaces in a new structure adjacent to and south of the existing student union facility. The two-story building will have an exterior of stucco and metal panels similar to the Pioneer Bookstore to the north of the facility. There will be minor modifications to the existing student union facility and a basement tunnel will allow existing utilities to serve the project. The not-to-exceed par value of the proposed bonds is \$12,960,000 and is based on project cost of \$13,903,285 of which \$2,500,000 will be paid from campus student union reserves, and the remaining balance will be paid from financing proceeds. The campus received good bids and expects to open the facility in February 2006.

The following table provides information about this financing transaction.

Not-to-exceed amount:	\$12,960,000
Amortization:	Approximately level over 30 years
Pro-forma maximum annual expected debt service:	\$928,154
Projected debt service coverage including the two new projects: <sup>1</sup>	
Gross revenue – all Hayward pledged revenue programs:	8.64
Net revenue – all Hayward pledged revenue programs:	3.47
Net revenue – projected for the campus Student Union program:	1.41

1. Projected information – Combines the 2002/03 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 \$12,960,000, 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 100 basis points (computed average coupon rate – 5.97%; June 23, 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. With this project, the student union’s net income from pledged revenue is projected at 1.41 times debt service, which is above the CSU benchmark of 1.10.

The campus is managing its overall use of debt so that with the project, the campus debt payments will total approximately 1.05% of its net unrestricted expenditures, which is within the maximum CSU internal benchmark allocation of 4.0% for campuses.

**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 the project described in this agenda item that authorize interim and permanent financing for the project. 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 \$12,960,000 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 the financing resolutions for the following project as described in this agenda item is recommended for:

**Hayward University Union Expansion Project**