AGENDA

COMMITTEE ON FINANCE

Meeting: **2:15 p.m., Tuesday, March 20, 2001**
CSULB, University Student Union-Multipurpose Room ABC

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 January 23, 2001

Discussion Items

1. Status Report on the 2001/02 Support Budget, *Information*
2. CSU Investment Report, *Information*
3. Auxiliary Organization Tax Exempt Financing at California State University, Los Angeles, *Information*
4. Auxiliary Organization Tax Exempt Financing at California State University, Monterey Bay, *Information*
5. Auxiliary Organization Financing at California State University, Fullerton, Faculty Housing, *Information*
6. California State University, Channel Islands Housing Development, Financial Overview, *Information*
7. Auxiliary Organization Tax Exempt Financing at California State University, Fresno for the Save Mart Center, *Action*

MINUTES OF THE MEETING
COMMITTEE ON FINANCE

Trustees of The California State University
Office of the Chancellor
Glenn S. Dumke Conference Center
401 Golden Shore
Long Beach, California 90802

January 23, 2001

Members Present

William Hauck, Chair
Murray L. Galinson, Vice Chair
Laurence K. Gould, Jr., Chair of Board, ex officio
Neel I. Murarka
Dee Dee Myers
Frederick W. Pierce IV
Ali C. Razi
Charles B. Reed, Chancellor, ex officio
Stanley T. Wang

Other Trustees Present

Roberta Achtenberg
William D. Campbell
Daniel N. Cartwright
Martha C. Fallgatter
Debra S. Farar
Harold Goldwhite
Shailesh J. Mehta
Ralph R. Pesquiera

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

Mr. William Hauck, chair, called the meeting to order at 2:35 p.m.

Approval of Minutes

The minutes of November 8, 2000 were approved.

Status Report on the 2001/2002 Support Budget

Mr. Richard P. West, executive vice chancellor and chief financial officer, presented an overview of the support budget. He referred to the handout distributed prior to the committee meeting, noting that it contained a detailed synopsis of the budget bill and a comparison between the original Trustees' request and the actual Governor's Budget.

Mr. West highlighted areas of key interest including the welcome addition of certain funds above the partnership. He observed this is a very good starting point at this time of year for the Governor's Budget. It contains a substantial increase over our current expenditure levels and it reflects the trustees' priorities.

The next steps over the ensuing three or four months will be to pursue trustee priorities that were not included in the present version of the budget. Some of those areas include a two percent compensation pool for faculty and staff, a student services initiative, and improving our student services programs over-all for academic counseling. Mr. West said these and other issues would be some of the priorities considered as budget discussions move forward toward the May Revision.

The California State University Debt Capacity Study

Mr. West explained the item was intended to present a comprehensive review of CSU's current debt capacity and to apprise the board of the university's existing debt obligations. He recalled that a study was presented in 1995 to the board; however, there have been significant changes since that time. The current study attempts to assess – from a capital markets perspective – the debt capacity of the CSU consistent with maintaining the university's current bond ratings. He announced Mr. John Augustine, Managing Director of Lehman Brothers, would be presenting the results of a formal analysis performed by Lehman Brothers.

With the assistance of a series of slides, Mr. West reviewed the university's debt history and growth process over the past several years. He indicated that there are several different types of debt and various sources of revenue that are pledged to pay for the debt.

The demand for debt has increased significantly due to economic growth over the past several years. The recent softening of economic conditions and the growing sophistication of our rating agencies have prompted the university to take an in-depth assessment of debt issuance to assure the university is cognizant of its ratings status and overall obligations.

CSU's ratings are closely aligned with the state's overall rating due to our high dependence on state revenue. Whenever the state's rating changes, the university's rating will follow. As a result, CSU's ability to directly control its ratings is somewhat limited.

Debt related projects are usually brought to the board on a project- by- project basis and information on the individual rating of the project is presented at that time. Mr. West explained that rating agencies use the balance sheet as one factor in their determinations. Since CSU is primarily a state-supported institution, we do not accumulate the kind of fund balances that rating agencies look at to determine a rating.

Mr. West introduced Mr. John Augustine, Managing Director of Lehman Brothers, and asked him to present an overview of his report.

Mr. Augustine utilized a slide presentation to highlight key points of the report. The primary purpose of the report was an attempt to explore more efficient methods of issuing debt. He credited the university and trustees' clear articulation of strategic goals as an important factor in maintaining a consistently strong rating. He then explained the complex strategy of how ratings are determined, and how the market looks at the university as a whole institution rather than from a campus, or individual project basis. Other important components of consideration include the level of state support, and financial statement analysis.

Mr. West thanked Mr. Augustine for his report. A lengthy discussion took place addressing issues and questions surrounding CSU's future debt capacity strategy. Some of the topics included: ensuring alternative coverage for debt if problems occur, or in the event of a down turn; efficient management of revenue resources; and exploring methods of using our assets to provide additional revenue that allows us to pay for other facilities.

Trustee Pierce encouraged looking at the debt issue on a more frequent basis. Trustee Galinson said he thought this was an excellent exercise. He cautioned however, that the general fund situation could change radically and rapidly. Times are good right now, but may not be for very long. Education is currently a high priority, but that can also change very quickly. He said the plan was very aggressive and expressed concern about the projected five-year debt level.

Dr. Charles B. Reed, chancellor, acknowledged Trustee Galinson's concern. However, he felt it was important to have this discussion given the increasing number of recommendations being presented to the board, and rising project costs. The Chancellor said the intention of today's discussion was simply to inform the board of the university's current debt status. Points of the discussion will be utilized to further refine the debt strategy, and continued discussions will take place at a later date.

Trustee Galinson said he hoped his comments weren't misconstrued as they were merely intended as an overall statement of concern that we not broadcast a commitment to any given amount of debt for the next five years.

Trustee Wang said he thought this was an appropriate and necessary discussion. He said it was important to have a clear grasp of what our capacity is and encouraged further exploration and discussion.

Approval of Implementation of a Commercial Paper Financing Program for the California State University

Mr. Bradley W. Wells, assistant vice chancellor for financial services introduced the item. The resolution called for approval to implement a commercial paper program to use short-term notes to finance CSU revenue bond projects. Mr. Wells noted the program was presented for information in September 2000 to the board

Mr. Wells introduced Richard Leffingwell, senior director of financing and treasurer. Mr. Leffingwell described how the program would work. He described it as an innovative use of the trustees existing authority that would lower the overall borrowing costs of the CSU. As explained in the September agenda item, the CSU does not have statutory authority to directly issue tax-exempt commercial paper. However, the CSU Institute can assist the university by issuing commercial paper under its corporate powers to finance the cost of projects approved by the Board of Trustees.

The most significant benefit to CSU would be derived from the interest rate differential between long-term bonds and short-term commercial paper notes. It is expected that the gross difference would be about two percent on the average. In addition to savings on revenue bond projects, the program has the potential to offer a similar rate of savings for specific equipment financings currently accomplished through commercial entities.

Mr. Leffingwell reviewed the program costs noting that the resolution would authorize issuance of commercial paper notes with a program limit of $250 million. He assured the committee that financings would continue to be presented to the board on an individual basis. Meanwhile, the selection of key team members has been completed and staff members continue to refine the details of the program to ensure its successful implementation.

Trustee Razi inquired about the status of the Institute, indicating he thought it had been disbanded. He also asked if there were any significant risks involved in taking on such a program.

Chancellor Reed informed Trustee Razi that the projects and contracts associated with the Institute had been phased out. It was decided to keep the shell of the foundation intact in the

event it might become of use at some point in time. However, the board of the foundation has been reconstituted and meets on a regular basis.

Mr. Wells explained the most significant risk for CSU would be if we encountered a situation where we could not effectively market the commercial paper notes. He pointed out we do not need to use the program in every circumstance. And it may prove more economical to use longer-term bonds in some instances. The program is simply an additional alternative we can use to more effectively manage the university's finances.

Mr. Leffingwell summarized that if managed effectively, CSU believes it can operate an effective, high quality commercial paper program that will lower the over all financing costs of many of the revenue bond projects and many of the equipment financings for the CSU.

Trustee Galinson voiced his support of the project and commended Mr. West and his staff on an excellent job.

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

Approval for Issuance of the Debt Instruments Supported by Bonds of the California State University Housing Revenue Bond System for an Apartment Complex at California State University, Fullerton

Mr. Wells explained the item called for approval to issue debt in an amount not to exceed $25.5 million dollars to fund the construction of an on-campus student housing project at CSU, Fullerton. The project will add to the existing bed spaces on the campus and will be financed through the issuance of housing system revenue bonds amortized over a 30-year period at a projected interest rate of 5.36 percent. Rent revenues from the project, and from existing on-campus housing are pledged to repay the debt.

Mr. Wells noted that if approved, the project would be proposed for the commercial paper program recommended in Agenda Item 3 above. The financial plan for the project has been reviewed and approved by a peer group and by the Housing Proposal Review Committee. He added that the plan provides for a sufficient debt coverage ratio as well as for appropriate transfers to maintenance and capital reserves.

The committee recommended approval of the proposed resolution (RFIN 01-01-02).

Approval for the Issuance of Debt Instruments Supported by Humboldt State University Student Union Revenue Bonds for an Expansion of the Student Union

The item requests approval to issue debt in an amount not to exceed $4,000,060 to fund the expansion and renovation of the multipurpose room that is part of the campus university center.

Mr. Wells described the project noting that it will add approximately 3,000 square feet to the existing facility.

Financing for the project will be through issuance of student body center bonds. The pledge for these particular bonds are mandatory fees charged at the campus, and the existing fee levels are able to support the additional debt. Mr. Wells noted this project would also be included in the commercial paper program.

Trustee Pierce pointed out it was difficult to determine the cost for the project based on the information given in the agenda item. Mr. Wells acknowledged the project was somewhat complicated due to the fact that it entails renovation of existing space and the defeasibility of some of the existing debt at the campus. Trustee Pierce asked what the amount of additional debt would be. Mr. Wells replied it was approximately $800,000.

The committee recommended approval of the proposed resolution (RFIN 01-01-03).

Auxiliary Organization Tax Exempt Financing for San Diego State University

Mr. Wells presented the information item. He noted it was being presented in accordance with the policy requiring that the board be kept apprised of financings by recognized auxiliary organizations. The San Diego State University Foundation is proposing a tax exempt borrowing in an amount not to exceed $11 million to finance a student housing project with tax exempt bonds and a taxable borrowing not to exceed $3 million to finance the construction of eight fraternity chapter houses. The project will be located on land currently owned by the Foundation.

Dr. Stephen L. Weber, president, San Diego State University emphasized the fraternity project is part of a larger community redevelopment project. He indicated there are several other components of the project that will include plans for a sorority, additional student housing, an elder hostel facility, and a mixture of retail projects.

Chancellor Reed indicated he wanted to be sure it was understood that the project is the first of several projects included in a major community redevelopment effort. Trustee Campbell inquired if there would be any restrictions on the usage of alcohol and drugs in the proposed fraternity houses. President Weber assured him there were very tightly controlled restrictions that have been set forth regarding such usage.

Real Property Development Project for San Jose State University for a Classroom and Office Complex Project

Mr. West opened the discussion by saying the two San Jose projects being presented were sizeable, ambitious, and important; and if successful, would be highly beneficial from an educational and revenue generating standpoint. It is apparent there are outstanding issues

associated with both projects, however, it is felt their individual potential warrants further exploration. He indicated that the projects were presented for conceptual approval only at this time.

The proposed project requests conceptual approval of a real property development project on the San Jose campus to permit construction of a classroom and office building project by Spartan Shops, Inc, (a recognized auxiliary organization) on leased land from the university.

Mr. West introduced Dr. Robert L. Caret, president, San Jose State University, who presented an overview of the history and details of the project. President Caret pointed out that San Jose is currently rated as one of the ten best cities in the country for businesses. Land near the campus is now valued at \$3.5 to \$4 million per acre. Concurrently, the City of San Jose, and the campus are undergoing tremendous change and growth.

President Caret reported the campus has begun the process of revising its Master Plan to address numerous challenges the campus will face in the future. Some of those challenges include planning for substantially increased enrollment growth, the need for new and improved facilities to serve this growth, and anticipated changes in teaching and research programs on the campus.

President Caret stated the purpose of today's presentation was simply to bring forth a concept whereby the campus may leverage the value of its land and space above it to the benefit of the campus. He noted the university is looking at working with an appropriate partner/s who would rent a majority of the space. Revenue generated from the project is expected to be more than sufficient to cover the amount needed to pay the debt service. President Caret assured the committee that a variety of options are being explored to minimize the amount of debt on this project.

Trustee Pesqueira asked what the campus was doing to maintain adequate energy supplies in light of the current energy crisis. President Caret responded the campus has its own co-generation plant and substation and is not impacted. However, the cost for generating its own electricity has increased substantially.

Trustee Campbell said he hoped that consideration would be given to increasing faculty office space within the project. Trustee Wang said he supported the program in concept at this time, however, he agreed that more specific information must be presented in order to evaluate the prospect of a final approval on this project.

The committee recommended approval of the proposed resolution (RFIN 01-01-04)

Real Property Development Project at San Jose State University for a Campus Housing and Retail Village Project

The resolution called for conceptual approval of a real property development project at San Jose State University to permit the development of a housing and retail village project by the Spartan Shops, Inc. (a recognized campus auxiliary organization). The proposed project calls for the addition of 5,000 beds in suite and apartment configurations as well as transitional apartments for faculty and staff housing. Additional facilities will include a dining facility, retail space, and 2,400 below grade parking spaces. The project cost is estimated to be between $375 and $425 million and will be completely self-supporting.

President Caret presented a comprehensive slide presentation on the project. His presentation clearly outlined the tremendous need for housing in the San Jose area and the subsequent exorbitant costs associated with that need. The new project would provide affordable and convenient living accommodations for students, faculty and staff.

Trustee Razi expressed his support for the conceptual plan but wanted assurance that the project would be in compliance with the campus' master plan. President Caret reiterated that a draft of a new campus master plan has been completed and will be presented for the trustee's approval in either March or June.

Trustee Murarka cautioned that the continued prosperity in the Bay Area may not continue forever and asked if the campus had any backup plans to safeguard itself in the remote event that industry trends change. President Caret agreed this was a valid concern. However, based on the current and projected demand for housing, there are no indications whatsoever that the project would encounter occupancy problems, even if the economy takes a downward track.

Trustee Campbell expressed his support in pursuing the San Jose projects. He indicated it would be to our advantage to personally oversee their development since it would greatly reduce the type of fees associated with using outside developers. Due to the size of the project, Trustee Pierce suggested that the committee consider doing the project in a series of phases rather than all at once.

Chair Hauck summarized that the resolution was simply calling for conceptual approval of the project at this time. He explained that the actual development plan, alternative financing mechanisms relating to debt capacity ratings, and additional information will be presented to the trustees for approval at key points in the process.

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

Real Property Development Project at California State University, Northridge for the Los Angeles Unified School District Academy High School

Mr. Wells introduced the item noting it was being presented for conceptual approval only at this time. The proposed project will permit the Los Angeles Unified School District to build an

academy high school on approximately 5.5 acres of land on the CSU, Northridge Campus. In exchange, the Los Angeles Unified School District will transfer title to the university of approximately eight acres of land located within the perimeters of the campus master plan. Transfer of the land will require legislative approval that will be sought through formal legislation. If trustee approval is obtained, and successful legislation is passed, the Los Angeles Unified School District will pay all costs associated with developing the academy high school.

Dr. Jolene Koester, president, CSU, Northridge addressed the committee and described the potential benefits of the project to the university. The academy high school will accommodate approximately 800 students from the surrounding area. Most importantly, it represents an opportunity for the campus' college of education faculty, teacher preparation students, and faculty in other areas of the university to work actively in the improved preparation of teachers for high school instruction.

Dr. Koester concluded by saying approval to move forward with this project would ultimately culminate in a true realization of the university's commitment to the preparation of qualified teachers.

The committee recommended approval of the proposed resolution (RFIN 01-01-06).

Real Property Development Project at California State Polytechnic University, Pomona for the International Polytechnic High School

Mr. Wells explained that the item was very similar to the previous proposal for CSU, Northridge. It requests approval to use 4.5 acres of land on the Pomona campus for the International Polytechnic High School. The school has been operating since 1993 in temporary facilities on the campus. The cost to construct a permanent high school will be paid by the Los Angeles County Office of Education (LACOE).

The school is considered very experimental but has been extremely successful with over 95 percent of its graduates continuing on to higher education. It has enjoyed an excellent relationship with the university and has been enthusiastically received by both the students and their parents. Due to the proven success of the high school, LACOE wishes to strengthen its partnership with the campus by building a permanent facility for it on the Pomona campus. The school is also strongly affiliated with the campus's school of education and is used as a site for training teachers.

The committee recommended approval of the proposed resolution (RFIN 01-01-07).

Real Property Development Project for the California State University, Hayward, Internet Switching Center

Mr. Wells noted the item had been presented to the board and conceptually approved at the November 2000 meeting.

The CSU Hayward Foundation will sub-lease a portion of undeveloped land on the Hayward campus to a limited liability company formed by Geographic Network Affiliates International (GEO). This company would be responsible for constructing and operating the proposed Internet switching center. The project would have no associated debt for either the trustees or the campus auxiliary. Chancellor Reed informed the committee that the agreement with GEO requires that all available space be subleased to tenants before any construction begins.

Since the November meeting, further negotiations have taken place with the proposed developer. Financial due diligence has been established and legal review and contract negotiation assistance have been obtained from a private sector attorney experienced with California public/private partnerships.

Dr. Norma S. Rees, president, California State University, Hayward, presented a brief update on the project. She highlighted the academic benefits of the project noting its enormous potential for creating a steady stream of new opportunities for academic programs, research, and business partnerships.

An item was also presented to the Campus Planning, Building, and Grounds Committee requesting approval of a master plan revision and schematics for the project.

The committee recommended approval of the proposed resolution (RFIN 01-01-08).

Adjournment
The meeting adjourned at 4:40 p.m.

COMMITTEE ON FINANCE

Presentation By

Richard P. West
Executive Vice Chancellor
and Chief Financial Officer

Status Report on the 2001/02 Support Budget

This item is being presented to the Board of Trustees (BOT) as an information item. The chart on page 2 displays the BOT 2001/02 budget request of $364.3 million, the Governor's budget approved in January of $291.5 million, and the recommendations contained in the Legislative Analyst's Office (LAO) Analysis. The CSU's response to the LAO Analysis will be provided as a handout at the meeting.

2001/02 Budget Plan - LAO Recommendations

	Board of Trustees	Governor's Budget	LAO Recommendations
Mandatory Costs			
Employee Benefits	$11,148,000	$11,148,000	
New Space	5,100,000	5,100,000	
1999/2000 Full-Year Service-based Comp. Increases	1,487,000	1,487,000	
Property Insurance	615,000	615,000	
Annuitants Dental Benefits	0	2,092,000	
Enrollment			
Marginal Cost for Instruction			
3% Growth; 8,760 FTE Students	62,310,000	62,310,000	
YRO State Supported Conversion; 3,138 FTES	**16,013,000**	**16,013,000**	Approve $12.4 million in state funding but link to actual growth in Summer term enrollments because state is already providing UC and CSU with full marginal cost funding for these students.
State University Grant Increase/Mandatory Fee Waivers	6,055,000	6,055,000	
Compensation - 4% Pool; all employees	81,520,000	81,520,000	
Long-Term Budget Need			
Technology - Buildout Equipment	10,000,000	10,000,000	
Technology - Increased Network Capacity	5,000,000	5,000,000	
Libraries	4,000,000	4,000,000	
Deferred Plant Maintenance	4,000,000	4,000,000	
K-12 Academic Preparation	**8,000,000**	**8,000,000**	Approve $8 million but encourage CSU to assess students college readiness earlier, require report on the preparedness of all entering students, and the effectiveness of its precollegiate services. Fund precollegiate services at CSU at same rate it funds credit courses at the community colleges. Adopt SRL requiring CSU to report on effectiveness of CAPI program. Four (4) recommendations for Higher Education Institutions, to diagnosis, assess and approve college ready proficiency for students.
Workforce Preparation and Economic Development	10,000,000	10,000,000	
Subtotal, CSU Operations and Enrollment Growth	**$225,248,000**	**$227,340,000**	
State Investments:			
Goals 2000 Backfill for CalTeach	$0	$500,000	
CPEC Eligibility Study	0	28,000	
Channel Islands	3,000,000	3,000,000	
Governor's Teaching Fellowships Full-Year Costs	17,500,000	17,500,000	
Governor's K-12 Technology Training Initiative	**18,500,000**	**18,500,000**	Shift funding from CSU to State Department of Education to expand Education technology Professional Development program and allow the districts to choose their professional development provider.
Diagnostic Writing Service	**4,118,000**	**1,000,000**	Approve $ 1 million in Governor's Budget because it has potential to improve students academic preparation for higher education.
Agricultural Research Initiative	5,000,000	1,000,000	
CSU Program for Education and Research in Biotechnology	3,000,000	1,000,000	
Marine Studies - Matching Funds	3,000,000	1,000,000	
Central Valley Economic Incubator	5,000,000	650,000	
Student Services Improvement	12,000,000	0	
Joint Use Intersegmental Programs	3,000,000	0	
2% Compensation Supplement for Faculty and Staff	40,760,000	0	
Investment in Faculty and Staff Housing	5,000,000	0	
Graduate FTE Conversion	19,205,000	0	
One-Time Funds: Instructional Equipment	0	20,000,000	
Total, Investments Above Partnership	**$139,083,000**	**$64,178,000**	
Total, 2001/02 CSU Budget Plan	**$364,331,000**	**$291,518,000**	

COMMITTEE ON FINANCE

CSU Investment Report

Presentation By

Bradley W. Wells
Assistant Vice Chancellor
Financial Services

Summary

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 fund manager should be hired to invest the funds consistent with the investment policy of the Board of Trustees. The firm of Metropolitan West Securities, Inc. was hired through a competitive process to manage an investment program for the California State University.

This agenda item reports the results of the Metropolitan West investment program for the six months ending December 31, 2000. In addition, results are provided for the Surplus Money Investment Fund (SMIF) and Local Agency Investment Fund (LAIF) for the six months ending December 31, 2000. The State Treasurer administers SMIF and LAIF, which are available to the campuses as investment options.

Market Recap

The overall softening of the domestic economy during the past six months has redirected the focus of the Federal Reserve Board from inflationary concerns to those of economic growth. In its December meeting, the Fed indicated that signs of an economic slowdown have been steadily increasing. However, the Board decided not to change the target Federal Funds rate until more information became available later in the month.

During a telephone conference meeting on January 3, 2001, sufficient evidence had emerged to convince the board to lower the target Federal Funds rate by 50 basis points to 6.00%. Another reduction of 50 basis points occurred on January 31, 2001, which brought the target rate to 5.50%. The Fed cited an overall reduction in consumer confidence and a measurable reduction in manufacturing as the primary basis for its action.

The U.S. Treasury also continued implementation of its debt reduction policy by reducing the reissuance of maturing securities, exercising call options, and repurchasing long-term bonds. During the October - December 2000 quarter, the Treasury expected to pay down an additional $23 billion in marketable debt. These actions are reducing the overall supply of U.S. Treasury securities, which has also had a lowering effect on Treasury yields.

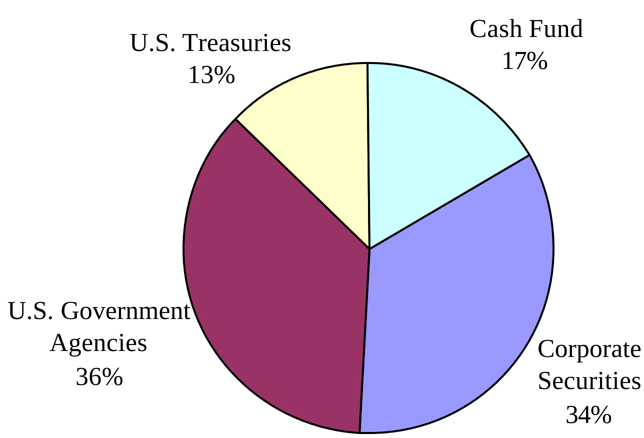
Corporate profits have become a growing concern among equity investors, particularly during the month of December. Over the past six months, we have seen a general decline in most major stock indices. This has been in response to the market's lower expectations with regard to corporate revenues and earnings.

This mix of market conditions has been generally favorable in the three fixed income accounts, but most notably the Total Return and Long-Term Accounts. Falling yields in U.S. debt market have benefited the portfolio returns by supplying price appreciation in addition to interest income. Reduced supply of U.S. Treasury securities has helped this sector outperform the corporate and agency sectors.

CSU Short-Term Investment Account Performance

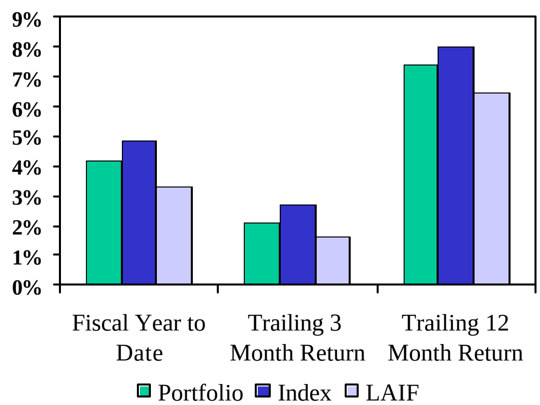
As of December 31, 2000, the asset balance in the Short-Term Account totaled $138 million. The objective of the Short-Term Account is to maximize current income along with preservation of capital. Consistent with the CSU investment policy, the portfolio is restricted to U.S. Treasury securities, government agency securities, and highly rated corporate securities. State law prohibits the investment of these funds in equity securities. The portfolio's holdings by sector for the Short-Term Account are as follows:

California State University Short-Term Account
Sector Breakdown as of
12/31/2000



The Short-Term Account returned 4.16 percent during the 6 months ended December 31, 2000. This return exceeded the 6-month return for the Local Agency Investment Fund. The portfolio under performed relative to its benchmark index, the Merrill Lynch 1-3 Year Treasury Index. During this period, US Treasuries out performed corporate bonds and therefore the portfolio, with its mix of securities, lagged the Treasury Index which only considers US Treasuries.

California State University System
CSU Short-Term Account
12/31/2000

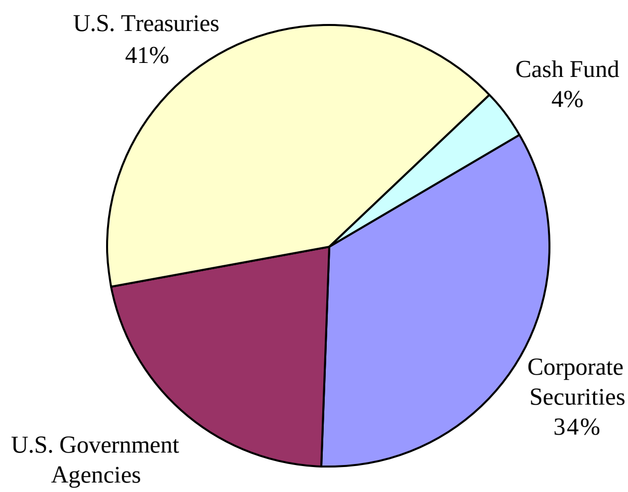


CSU Total Return Investment Account Performance

The objective of the Total Return Account is to maximize medium term total return. The account is invested in a diversified portfolio of fixed income securities of varying maturities with approximate portfolio duration of 3.75 to 5.75 years. The account is structured to perform consistently with the Merrill Lynch 5-7 year Treasury Index, and to outperform both the Short - Term Account and LAIF over a 5-7 year investment horizon. As of December 31, 2000, the net asset value of the account was $111 million.

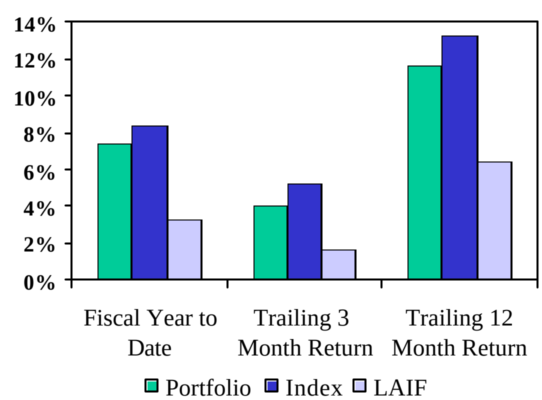
Consistent with the CSU investment policy, the Total Return Account portfolio is restricted to US Treasury securities, government agency securities, and highly rated corporate securities. State law prohibits the investment of these funds in equity securities. The portfolio's holdings by sector for the Total Return account are as follows:

**California State University Total Return Account
Sector Breakdown as of
12/31/2000**



The Total Return Account has provided a return of 7.41% during the 6 months ended December 31, 2000. This return exceeded the 6-month return for the Local Agency Investment Fund. The portfolio under performed relative to its benchmark index, the Merrill Lynch 5-7 Year Treasury Index. During this period, US Treasuries out performed corporate bonds and therefore the portfolio, with its mix of securities, lagged the Treasury Index which only considers US Treasuries.

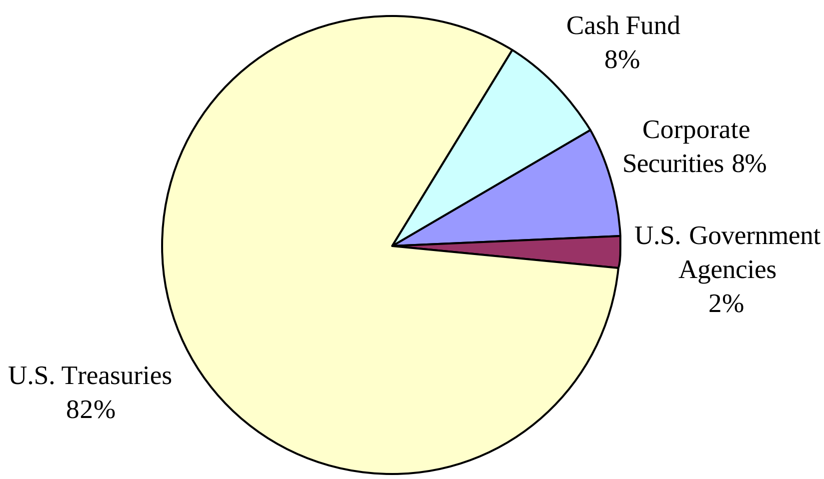
**California State University System
CSU Total Return Account
12/31/2000**



CSU Long-Term Account Investment Performance

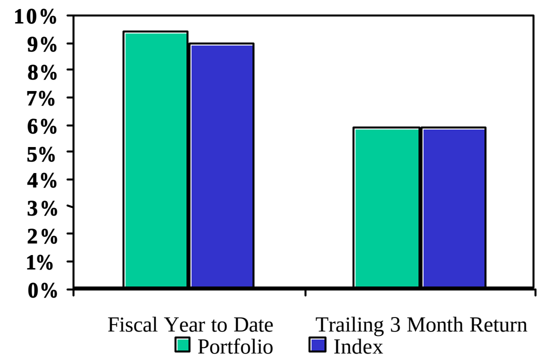
The investment objective of the Long-Term Account is to maximize returns for funds that can be invested for a longer term. This account invests in a diversified portfolio of fixed income securities of varying maturities with approximate portfolio duration of 5 to 7 years. As of December 31, 2000, the net asset value of the account was $36 million. Consistent with the CSU investment policy, the portfolio is restricted to US Treasury securities, government agency securities, and highly rated corporate securities. State law prohibits the investment of these funds in equity securities. The portfolio's holdings by sector for the Long-Term Account are as follows:

California State University Long-Term Account Sector Breakdown as of 12/31/2000



The Long-Term Account began in February 2000 and has provided a return of 9.39% during the 6 months ended December 31, 2000. This return exceeded the 6-month return for the established benchmarks, which are the Merrill Lynch 7-10 Year Index and the Local Agency Investment Fund.

California State University System
CSU Long-Term Account
12/31/2000



Surplus Money Investment Fund (SMIF)

The Surplus Money Investment Fund (SMIF) is a vehicle used by State Treasurer to invest state funds in a short-term pool at virtually no risk. Cash on this account is available on a daily basis. SMIF is managed by the State Treasurer's Office. The portfolio's composition includes CD's and Time Deposits, U.S. Treasuries, Commercial Paper, Corporate Securities, and U.S. Government Agencies. As of December 31, 2000, the balance was $62,529,000.

SMIF Performance Report
Apportionment Yield Rate

06/30/2000:	5.986%
12/31/2000:	6.493%

SMIF Past Performance
1996-2000

Average:	5.660%
High:	6.493%
Low:	5.134%

Local Agency Investment Fund (LAIF)

The Local Agency Investment Fund (LAIF) is a vehicle used by State Treasurer to invest local agency funds. All investments are purchased at market, and market valuation is conducted quarterly. For the quarter ending December 31, 2000, LAIF provided an apportioned rate of return of 6.52%.

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 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 90724 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)

B. Eligible securities for investment outside the State Treasury, as authorized by Government Code Section 16430 and 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 Mortgage Corporation, 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;

- Bankers' acceptances eligible for purchase by the Federal Reserve System;

- Certificates of deposit (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;

C. 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:

- 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;

- 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;

- 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's 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:

- to be submitted to the Chancellor within 30 days of the quarter's end

- to contain a statement with respect to compliance with the written statement of investment policy; and

- 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

Bradley W. Wells
Assistant Vice Chancellor
Financial Services

Summary

Cal State L.A. University Auxiliary Services, Inc. (Corporation), a recognized auxiliary organization in good standing, is proposing a tax exempt borrowing in an amount not to exceed $27,220,000 to finance the planning and construction of a corporation building complex. The complex will provide space for various activities 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. The amount of the proposed financing is based on a construction cost estimate. Construction bids will be received after this meeting of the Trustees whereupon construction will start immediately to enable the project to move forward on a fast-track schedule that will cause the least inconvenience to campus activities.

The financing transactions will not create any obligation of the State of California or the trustees. The auxiliary organization will issue the bonds pursuant to an indenture entered by the auxiliary organization and a bank serving as trustee for the bonds. The bonds are general obligations of the corporation and are secured by the agreements and revenues as set forth and defined in the indenture.

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 organization pursuant to the chancellor's delegation in the Board of Trustees' policy for financing activities.

Project Description

The new corporation building complex will be located at the center of the campus on the site of the existing cafeteria and dining hall which will be demolished to make way for construction of the new building. The project comprises two separate three-story building structures and it provides approximately 73,460 net square feet of space for collective uses. The buildings are connected by walkways that will be seismically separated from the structures. The internal space between the buildings will be covered by a shade structure that continues around the bookstore building forming a canopy feature on the facade. The site design utilizes the student circulation inherent in this location on campus to increase internal and external ground floor exposure of the retail elements of the program. The building plan for the east structure is organized into a two-story university bookstore with a small gift store on the ground level adjacent to the outdoor dining. Located in the third floor will be the offices of the corporation. The west structure contains the majority of the food service program consisting of eight different dining concepts and seating capacity for 500 people. The American Culture Language Program will be located on the second floor with the top level consisting of a 600- person conference center and related support functions.

Auxiliary Organization Tax Exempt Financing

The following summarizes additional key information regarding the proposed financing:

Financed amount not-to-exceed:	$27,220,000
Amortization:	30 years
Estimated rate (all-inclusive cost):	5.34%
Rate not to exceed:	6.00%
Projected debt service coverage:	1.69 times
Bond insurance commitment:	MBIA Insurance Corporation has provided a commitment for bond insurance subject to the final negotiations with the auxiliary organization regarding the debt covenants.
Bond intrinsic rating before bond insurance:	Based upon anticipated transaction covenants, both Moody's (Baa2) and Standard & Poor's (BBB) have provided investment grade intrinsic bond ratings (before bond insurance).

Financing Team:

Underwriters:	A.G. Edwards & Sons, Inc.
Underwriter's Counsel:	Kronick, Moskovitz, Tiedemann & Girard
Bond Counsel:	Orrick, Herrington & Sutcliffe, LLP
Pricing Agent:	Kelling, Northcross & Nobriga
Trustee:	BYN Western Trust Company of New York

Other Information

On January 9, 1998, the IRS issued a private letter ruling permitting the categorization of certain auxiliary organizations as “instrumentalities of the state” for tax exempt financing purposes. While the ruling relates to specific future auxiliary transactions 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 which form the basis of the ruling are similar in other auxiliary transactions, those transactions may also be accomplished under the more streamlined procedures.

Orrick, Herrington, and Sutcliffe, LLP has reviewed the circumstances for the proposed tax exempt financing and determined that they are substantially similar to the circumstances in the private letter ruling. Therefore, the auxiliary organization 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, which would be more complicated and costly.

COMMITTEE ON FINANCE

Auxiliary Organization Tax Exempt Financing at California State University, Monterey Bay

Presentation By

Bradley W. Wells
Assistant Vice Chancellor
Financial Services

Summary

The Foundation of California State University, Monterey Bay (Foundation), a recognized auxiliary organization of the Monterey Bay campus, is proposing a tax-exempt borrowing in an amount not to exceed $16 million to finance the cost of renovating additional student housing and a food service and entertainment facility. Bonds will be issued by the Foundation on a parity basis with outstanding revenue bonds pursuant to the prior trust agreement entered into by the Foundation and a bank serving as trustee for the bonds. The bonds will be general obligations of the Foundation secured by pledged Foundation revenues. The financing transactions will not create any obligation of the State of California or the trustees.

The Foundation's board of directors has approved at its February 15, 2001 meeting a resolution that authorizes this transaction. Subsequent to the review of this item by the Board of Trustees, the chancellor may take the necessary action on behalf of the board to assist the auxiliary organization pursuant to the chancellor's delegation in the Board of Trustees' policy for financing activities.

Project Description

California State University Monterey Bay is planned to become a predominantly residential campus. Presently, most freshmen and sophomores are required to live on campus in a residence hall, unless they obtain a waiver. The new project will renovate two barracks buildings that will become the sixth and seventh residence halls in a cluster that is located in the core of the campus. This renovation project will add approximately 280 additional bed spaces, bringing available bed spaces up to approximately 930, and will allow the Foundation, which operates the on-campus housing program, to meet fall 2001 demand for freshmen and sophomore residence hall housing on campus.

The project is currently in the final design stage. The project team includes the architect, the structural, mechanical, and electrical consultants, the general contractor, and the Foundation's project manager. Renovation of the buildings began in January 2001 with abatement, demolition and seismic upgrades. The renovation is planned to take approximately 180 days, resulting in completion by July 30, 2001. Students are expected to move into the building mid-August 2001.

The Foundation has determined that it is in its best interest to negotiate with the general contractor that renovated the previous five halls rather than go through a public bidding process. Previous renovations of the existing residence halls, which presented nearly identical design and construction issues to the current project, were completed in less than 120 days. Using the same general contractor as part of the project team allows incorporation of the knowledge gained from renovating the previous five halls to improve the final product, as well as to reduce unnecessary costs. All sub-contractor work will be competitively bid during the early phases of the project.

The estimated total cost for the renovation of the two halls is $11.8 million. The Foundation has entered into an agreement with the general contractor for a not-exceed-price for the renovation, and the final price will be established under or up to this amount as the subcontractors are selected.

Proceeds of the financing will also be used to fund approximately $825,000 in design and renovation improvements to a campus to a facility that serves as a student meeting and dining facility known as the Black Box Cabaret. The upgrades will address fire life safety issues, expanding restroom facilities, improving Americans With Disability Act accessibility, improving electrical service to the stage and other areas, providing for an outdoor eating area, and other minor cosmetic changes. The project is currently in the design phase, with construction anticipated to begin in the spring of 2001. Once completed, the university will enter into an agreement to pay the Foundation to operate the facility from the recently approved student union fee.

Auxiliary Organization Tax Exempt Financing

The following summarizes key elements of the proposed financing:

Financed amount not-to-exceed:	$16 million
Amortization:	32 years
Expected rate (all-inclusive cost):	5.7 %
Bond true interest rate, not-to-exceed:	8 %
Projected debt service coverage:	1.67 times

Bond insurance commitment:	Currently being sought
Bond intrinsic rating (before bond insurance):	Expected investment grade (Baa2), currently being sought

Financing Team:

Underwriters:	George K. Baum
Underwriter's Counsel:	Kronick, Moskovitz, Tiedemann and Girard
Bond Counsel:	Orrick, Herrington & Sutcliffe, LLP
Bond Trustee:	Bank of New York Western Trustee Company

Other Information

The Foundation will be issuing the bonds based on a recent private letter ruling by the IRS that now permits certain auxiliary organizations to issue debt as instrumentalities of the State for tax-exempt financing purposes. Orrick, Herrington, & Sutcliffe LLP has determined that the Foundation is qualified under the IRS letter. This new procedure is significantly less complex and less costly to the Foundation than the previous procedure prior to the private letter ruling.

COMMITTEE ON FINANCE

Auxiliary Organization Financing at California State University, Fullerton, Faculty Housing

Presentation By

Bradley W. Wells, Assistant Vice Chancellor
Financial Services

Summary

The CSU Fullerton Housing Authority (Authority), a recognized auxiliary organization of California State University, Fullerton (University), is proposing a commercial borrowing to finance the cost to build off-campus faculty-staff housing. The project is an 86-unit home ownership development, which will be owned by the Authority. The financing transaction will not create any obligation of the State of California or the Board of Trustees.

Background

The University has a critical need for affordable faculty-staff housing, especially for nationally recruited positions. Home prices in Orange County are in the least affordable 5% of all housing markets nationwide. The University estimates that a significant number of offers for initial employment are declined owing to the inability of candidates to locate affordable housing in the Fullerton, Buena Park, and surrounding Orange County communities. In addition, retention of existing national recruits who wish to move from rental to home ownership is difficult in this market.

The Orange County Flood Control District currently owns the land for the project. The land will be donated to the City of Buena Park Redevelopment Agency, which will then donate it to the CSU Fullerton Housing Authority. Formal approval of the conveyance by these entities is scheduled to occur in March. The Authority will contract with Ambling West to build the units for a guaranteed maximum price for construction, which will be established by the end of April before the financing is concluded. Proceeds from the sale of each unit will be applied to retire the Authority's construction debt. The ground under each unit will be leased on a long-term basis to the homebuyer as part of the purchase transaction.

Project Description

The project will consist of 86 units, associated infrastructure, and recreational amenities. It is located in Buena Park approximately a 10-minute drive from the campus. The City will have a new commuter-rail stop next to the project, thus enabling residents to enjoy multi-modal access. A childcare facility will also adjoin the project.

The proposed unit mix of the project is 56 detached homes and 30 town homes. The unit mix features 11 units with 1,250 square feet, 19 units with 1,375 square feet, 20 units with 1,450 square feet, and 36 units with 1,600 square feet. Sales prices will range from $165,000 to $230,000. Market price data obtained by the Authority for comparable units results in a trend line showing an approximate sales price of $265,000 for a 1,600 square foot unit.

Costs to develop the homes will be less than for a market project because of: (1) the donation of the land from another governmental entity and (2) development by a nonprofit corporation. These savings can be passed on to make the homes more affordable for entry-level faculty purchase.

Auxiliary Organization Financing

The Authority's governing board has approved a general financing plan for the project. The debt will be incurred pursuant to the Authority's power as a California nonprofit public benefit corporation. The financing transaction will consist of an 18-month conventional construction loan borrowing from Citigroup, Inc. in an amount not to exceed $17 million to finance the construction cost to develop the project of approximately $15 million. The debt will be an obligation of the Authority secured by the pledged revenues of the project and a mortgage of the property and improvements. The Authority is a special-purpose auxiliary, which has no assets other than the project. The California State University Fullerton Foundation may guarantee certain obligations of the Authority to enable it to obtain financing.

Several other financing sources were also reviewed by management of the Authority pursuant to the approved general financing plan. These included another conventional loan proposal from the lender that finances the faculty-staff for sale housing on a University of California campus, and a proposal for a privately placed taxable bond from a firm that underwrites many of the auxiliary financings in the CSU system. Either of these would be a suitable second choice if any unforeseeable problems were to arise with the selected lender.

The following summarizes key information for the proposed financing:

Financed amount not to exceed:	$17 million
Term:	18 months (plus 6 months total extension options)
Projected financing cost:	Prime Plus 0.5%, origination fee of .05% plus costs estimated at $66,500

Credit enhancement commitment	Not required for conventional financing. The lender may require a letter of credit or a Foundation guarantee for up to 10% of the hard costs in lieu of a performance bond
Financing Team:	
Real Estate Counsel	Straddling Yocca Carlson & Rauth
Lender:	Citigroup, Inc.

Subsequent to the review of this item by the Board of Trustees, the Chancellor may take any 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.

COMMITTEE ON FINANCE

California State University, Channel Islands, Housing Development Financial Overview

Presentation By

Bradley W. Wells
Assistant Vice Chancellor
Financial Services

Summary

The development of 900 housing units at California State University, Channel Islands will provide much needed affordable for-sale and rental housing for faculty and staff of the new university as well as provide a revenue stream to help support the academic capital requirements of the university. A financing structure has been designed to support a phased development plan to build between 150 and 200 housing units each year over the next five years, which will help ensure that an adequate supply of housing is available to employees as they are hired as well as provide sufficient net revenues to build academic facilities as enrollment grows.

Background

In 1998, the legislature authorized the creation of the California State University, Channel Islands Site Authority to implement conversion of the former state hospital near Camarillo in the County of Ventura to a new state university. The Site Authority was provided statutory power to levy and collect special property taxes and tax increments to facilitate the financing of the backbone infrastructure and the construction of for-sale and rental housing on what is called the east campus of the site. Net revenues from the development of the housing are designated for use to help construct academic facilities on the west campus site.

A joint powers authority, called the California State University, Channel Islands Financing Authority, has been formed between the Site Authority and the Calfornia State University to issue debt to finance the infrastructure and rental housing construction. The tax-exempt bonds will be issued by the Financing Authority in five increments with the first increment issued in April 2001 to finance the backbone infrastructure for the entire development. The remaining four increments will finance phases one through four of the rental housing each year beginning in 2001.

Financing for the Channel Islands development includes a Marks Roos infrastructure bond, a series of rental housing tax-exempt revenue bonds, and traditional construction financing for the for-sale components of the project. The various financing mechanisms are summarized below.

Cost	Financing	Repayment Stream
Predevelopment Costs	Marks Roos Bonds Construction Loan	Taxes and Rental Income Housing Sales and Rental Income
Public Infrastructure	Marks Roos Bonds	Taxes and Rental Income Housing Sales and Rental Income
For-Sale Residential	Construction Loan	Housing Sales and Rental Income
Rental Residential	Multi-Family Housing Bonds	Rental Income
Retail and Commercial	Revenue Bonds	Rental Income
Academic Facilities	Tax-Exempt Bonds	Net Revenues

Infrastructure Bond

The Financing Authority will issue approximately $46 million in tax exempt revenue bonds to finance the complete east campus backbone infrastructure and the phase I neighborhood infrastructure. The bonds will be sized to fund a debt service reserve and up to three years of capitalized interest. The debt service payments will be structured to increase approximately two percent annually to coincide with anticipated revenue growth. A letter of credit provided by Citibank will provide debt service coverage during the absorption period as the housing is completed and sold or rented.

Revenues pledged to repay the Marks Roos bonds include a community facilities district special tax established pursuant to a validated rate and method of apportionment. This special tax will be charged by the county assessor, collected by the county tax collector, and transferred to the Financing Authority.

A property tax increment will also be pledged to pay the infrastructure bonds. The tax increment, equal to one percent of the assessed value, will be charged by the county assessor, collected by the county tax collector, and transferred to the Site Authority. A loan agreement between the Site Authority and the Financing Authority will commit the tax increment revenues to repayment of the infrastructure bonds.

Finally, up to 20 percent of the rental income from rental housing constructed on the east campus will be committed to repay the revenue bonds and to provide sufficient debt service coverage.

The estimates for the tax increment and the special tax have been provided by David Taussig and Associates, a special tax consultant hired by the Site Authority. In addition, Empire Economics, LLC is conducting an absorption study to review and validate the projected sales and rentals of the housing constructed on the east campus. A market study has been conducted by the Concord Group to provide additional assurances regarding the estimated income from the development.

Rental Housing Bonds

The construction of 488 rental units in four phases beginning with the construction of 148 units in phase I will be financed by the site authority through tax-exempt revenue bonds. A summary of the number of rental and for-sale units constructed for each phase is provided in the table below. Rental income will be used to pay debt service on the bonds. Over the four phases of rental housing, approximately $70 million in tax-exempt bonds will be issued. Beginning in 2011-12, up to 240 rental units will be converted to for-sale units as demand for for-sale housing increases. As the units are converted, the tax-exempt revenue bonds used to construct the units will be paid off from proceeds of the sale.

	Phase I 2001-02	**Phase II 2002-03**	**Phase III 2003-04**	**Phase IV 2004-05**	**Phase V 2005-06**	**Total**
Rental						
Apartments	100	100	0	0	0	200
Monterey apartments	0	0	80	60	0	140
Town center apartments	0	48	0	0	0	48
Attached townhomes	48	24	28	0	0	100
Subtotal for rent	148	172	108	60	0	488
For Sale						
Single family detached	36	0	36	42	40	154
Single family large lot	0	0	0	14	34	48
Attached townhomes	24	26	50	36	74	210
Subtotal for sale	60	26	86	92	148	412
Total	208	198	194	152	148	900

Summary Financial Plan

The table below summarizes the sources and uses of funds in millions of dollars for all phases of the east campus development over a 45-year period. Debt service estimates are based on bonds amortized over 30 years at 6% interest. Operating expenses for the rental housing are escalated 3% per year.

In general, the financial plan provides net revenues, which total over $660 million over the 45 year period, to finance the academic capital requirements of the campus through the year 2031 providing space for approximately 8,100 FTES.

Sources of Funds

Year	Sales	Resales	Conversion Sales	Rents	Tax Increment	CFD Maximum Special Tax	Retail and R&D Income	Total Sources
2001-02	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2002-03	18.8	-	-	2.5	-	-	-	21.2
2003-04	19.5	-	-	5.2	0.1	0.1	-	24.8
2004-05	23.4	-	-	7.1	0.2	0.2	0.3	31.1
2005-06	39.7	-	-	8.2	0.3	0.4	0.3	49.0
2006-07	-	0.5	-	8.5	0.6	0.7	0.4	10.6
2007-08	-	0.6	-	8.7	0.9	1.0	0.5	11.8
2008-09	-	0.7	-	9.0	0.9	1.0	0.6	12.3
2009-10	-	0.8	-	9.6	1.0	1.1	0.8	13.2
2010-11	-	1.0	-	9.8	1.0	1.1	0.6	13.4
2011-12	-	1.1	13.2	9.4	1.0	1.1	0.6	26.5
2012-13	-	1.2	6.2	8.7	1.0	1.1	0.6	19.0
2013-14	-	1.4	24.8	7.4	1.0	1.2	0.7	36.5
2014-15	-	2.0	13.2	5.8	1.1	1.2	0.7	24.0
2015-16	-	2.8	-	5.3	1.2	1.3	0.7	11.3
2016-17	-	3.1	-	5.5	1.2	1.4	0.8	11.9
2017-18	-	3.3	-	5.6	1.3	1.5	0.8	12.5
2018-19	-	3.6	-	6.0	1.3	1.5	0.9	13.3
2019-20	-	4.0	-	5.8	1.3	1.6	0.9	13.7
2020-21	-	4.3	-	6.0	1.4	1.7	1.0	14.4
2021-22	-	4.7	-	6.2	1.4	1.7	1.1	15.1
2022-23	-	5.0	-	6.3	1.5	1.8	1.2	15.9
2023-24	-	5.4	-	6.5	1.5	1.9	1.2	16.7
2024-25	-	5.9	-	6.7	1.6	2.0	1.3	17.5
2025-26	-	6.3	-	6.9	1.6	2.0	1.4	18.3
2026-27	-	6.8	-	7.1	1.6	2.0	1.4	19.1
2027-28	-	7.3	-	7.3	1.7	2.1	1.5	19.9
2028-29	-	7.9	-	7.6	1.7	2.1	1.5	20.8
2029-30	-	8.4	-	7.8	1.7	2.2	1.5	21.7
2030-31	-	9.0	-	8.0	1.8	2.2	1.6	22.6
2031-32	-	9.6	-	8.3	1.8	2.3	1.6	23.6
2032-33	-	10.3	-	8.5	1.8	2.3	1.7	24.6
2033-34	-	10.9	-	8.8	1.8	2.4	1.7	25.6
2034-35	-	11.6	-	9.0	1.9	2.4	1.8	26.7
2035-36	-	12.3	-	9.3	1.9	2.4	1.8	27.8
2036-37	-	13.0	-	9.6	1.9	2.5	1.9	28.9
2037-38	-	13.7	-	9.9	2.0	2.5	2.0	30.1
2038-39	-	14.5	-	10.2	2.0	2.6	2.0	31.3
2039-40	-	15.2	-	10.5	2.0	2.6	2.1	32.5
2040-41	-	16.0	-	10.8	2.0	2.7	2.1	33.7
2041-42	-	16.8	-	11.1	2.1	2.8	2.2	34.9
2042-43	-	17.6	-	11.4	2.1	2.8	2.3	36.2
2043-44	-	18.4	-	11.8	2.1	2.9	2.3	37.5
2044-45	-	19.1	-	12.1	2.2	2.9	2.4	38.8
2045-46	-	19.9	-	12.5	2.2	3.0	2.5	40.1
2046-47	-	20.7	-	12.9	2.2	3.0	2.6	41.4
Total	$ 101.3	$ 337.2	$ 57.5	$ 371.2	$ 65.1	$ 81.5	$ 57.8	$ 1,071.7

Uses of Funds

Year	Operating Expenses	Construction Costs	Infra- structure Debt Service	Phase I Rental Debt Service	Phase II Rental Debt Service	Phase III Rental Debt Service	Phase IV Rental Debt Service	Retail and R&D Debt Service	Total Uses
2001-02	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2002-03	0.5	15.3	-	-	-	-	-	-	15.8
2003-04	1.1	15.7	-	1.4	-	-	-	-	18.2
2004-05	1.5	18.6	0.9	1.4	1.5	-	-	0.0	24.1
2005-06	1.8	31.2	1.8	1.4	1.5	1.1	-	0.0	38.9
2006-07	1.9	-	2.1	1.4	1.5	1.1	0.6	0.0	8.5
2007-08	1.9	-	2.4	1.4	1.5	1.1	0.6	0.0	8.9
2008-09	2.0	-	2.5	1.4	1.5	1.1	0.6	0.0	9.1
2009-10	2.0	-	2.6	1.4	1.5	1.1	0.6	0.1	9.2
2010-11	2.1	-	2.6	1.4	1.5	1.1	0.6	0.1	9.4
2011-12	2.1	1.1	2.7	7.9	1.5	1.1	0.6	0.1	17.0
2012-13	2.1	0.5	2.8	0.9	4.2	1.1	0.6	0.1	12.1
2013-14	2.0	1.8	2.8	0.9	1.3	11.8	0.6	0.1	21.1
2014-15	1.7	0.9	2.8	0.9	1.3	-	7.1	0.1	14.7
2015-16	1.3	-	2.9	0.9	1.3	-	-	0.1	6.5
2016-17	1.2	-	2.9	0.9	1.3	-	-	0.1	6.4
2017-18	1.3	-	3.0	0.9	1.3	-	-	0.1	6.5
2018-19	1.3	-	3.0	0.9	1.3	-	-	0.1	6.6
2019-20	1.4	-	3.1	0.9	1.3	-	-	0.1	6.7
2020-21	1.4	-	3.2	0.9	1.3	-	-	0.1	6.8
2021-22	1.4	-	3.2	0.9	1.3	-	-	0.1	6.9
2022-23	1.5	-	3.3	0.9	1.3	-	-	0.1	7.0
2023-24	1.5	-	3.3	0.9	1.3	-	-	0.1	7.1
2024-25	1.6	-	3.5	0.9	1.3	-	-	0.1	7.2
2025-26	1.6	-	3.5	0.9	1.3	-	-	0.1	7.4
2026-27	1.7	-	3.6	0.9	1.3	-	-	0.1	7.5
2027-28	1.7	-	3.7	0.9	1.3	-	-	0.1	7.6
2028-29	1.8	-	3.8	0.9	1.3	-	-	0.1	7.8
2029-30	1.8	-	3.9	0.9	1.3	-	-	0.1	7.9
2030-31	1.9	-	0.1	0.9	1.3	-	-	0.1	4.2
2031-32	1.9	-	-	0.9	1.3	-	-	0.1	4.2
2032-33	2.0	-	-	0.9	1.3	-	-	0.1	4.2
2033-34	2.1	-	-	0.9	1.3	-	-	0.1	4.3
2034-35	2.1	-	-	-	1.3	-	-	0.1	3.5
2035-36	2.2	-	-	-	-	-	-	0.1	2.2
2036-37	2.2	-	-	-	-	-	-	0.1	2.3
2037-38	2.3	-	-	-	-	-	-	0.1	2.4
2038-39	2.4	-	-	-	-	-	-	0.1	2.4
2039-40	2.4	-	-	-	-	-	-	0.1	2.5
2040-41	2.5	-	-	-	-	-	-	-	2.5
2041-42	2.6	-	-	-	-	-	-	-	2.6
2042-43	2.7	-	-	-	-	-	-	-	2.7
2043-44	2.8	-	-	-	-	-	-	-	2.8
2044-45	2.8	-	-	-	-	-	-	-	2.8
2045-46	2.9	-	-	-	-	-	-	-	2.9
2046-47	3.0	-	-	-	-	-	-	-	3.0
Total	$ 86.1	$ 85.0	$ 75.9	$ 37.9	$ 44.2	$ 20.2	$ 11.6	$ 3.1	$ 364.0

Sources Less Uses

Year	Total Sources Less Total Uses	Transfer to L&M Housing Fund	Transfer to Academic Capital
2001-02	$ -	$ -	$ -
2002-03	5.5	-	-
2003-04	6.6	0.0	5.5
2004-05	7.1	0.0	6.6
2005-06	10.1	0.0	7.1
2006-07	2.1	0.1	10.1
2007-08	2.9	0.1	2.0
2008-09	3.2	0.1	2.8
2009-10	4.0	0.1	3.1
2010-11	4.1	0.1	3.9
2011-12	9.5	0.1	4.0
2012-13	6.9	0.1	9.4
2013-14	15.4	0.1	6.8
2014-15	9.3	0.1	15.3
2015-16	4.9	0.1	9.2
2016-17	5.5	0.1	4.7
2017-18	6.1	0.2	5.4
2018-19	6.8	0.2	5.9
2019-20	7.0	0.2	6.6
2020-21	7.6	0.2	6.8
2021-22	8.2	0.2	7.4
2022-23	8.9	0.2	8.0
2023-24	9.6	0.2	8.7
2024-25	10.2	0.2	9.4
2025-26	10.9	0.2	10.0
2026-27	11.6	0.2	10.7
2027-28	12.3	0.2	11.4
2028-29	13.0	0.2	12.1
2029-30	13.8	0.2	12.8
2030-31	18.4	0.2	13.6
2031-32	19.4	0.2	18.2
2032-33	20.4	0.2	19.2
2033-34	21.4	0.2	20.2
2034-35	23.2	0.2	21.1
2035-36	25.6	0.2	23.0
2036-37	26.6	0.2	25.3
2037-38	27.7	0.2	26.4
2038-39	28.8	0.2	27.5
2039-40	30.0	0.3	28.6
2040-41	31.2	0.3	29.7
2041-42	32.3	0.3	30.9
2042-43	33.5	0.3	32.1
2043-44	34.7	0.3	33.3
2044-45	36.0	0.3	34.5
2045-46	37.2	0.3	35.7
2046-47	38.4	0.3	36.9
Total	$ 707.7	$ 8.1	$ 661.4

COMMITTEE ON FINANCE

Auxiliary Organization Tax Exempt Financing at California State University, Fresno for the Save Mart Center

Presentation By:

John D. Welty, President
California State University, Fresno

Bradley W. Wells, Assistant Vice Chancellor
Financial Services

Summary of the Project

The California State University, Fresno Association, Inc. (the Association), a recognized auxiliary organization in good standing, is proposing a tax exempt borrowing in an amount not to exceed $80 million to finance a 15,000-18,000 seat, multi-purpose event center known as The Save Mart Center. The project will be located on university land leased to the Association.

Background

Since the early 1980s, California State University, Fresno has discussed plans to develop an on-campus multi-purpose event center. Currently, the men's basketball games are held in the 10,200-seat Selland Arena owned by the City of Fresno in downtown Fresno. The university has outgrown Selland Arena for men's basketball games with a sold-out record for the past 75 games. The university made the decision to pursue the development of an on-campus event center when it was determined that expansion of Selland Arena was not feasible. In addition, the ability to offer additional student seating in Selland Arena is limited due to its capacity. Fresno State students will have 2,000 seats in the Save Mart Center, a 300% increase from Selland Arena.

With a current population base of three million within Central California's nine-county region, the establishment of this premier sports and entertainment venue will provide significant benefit to both the region and the university. Fresno State is the only institution in the Western Athletic Conference (WAC) without an on-campus arena.

Project Description and Location

The proposed Save Mart Center is approximately 450,000 gsf and includes a 16,000-seat multi-purpose arena with 32 private luxury suites, public concourses, a club level concourse, food court and concession areas, team locker rooms, and other typical amenities. The 48-acre project site is located on campus off Shaw Avenue between Woodrow and Chestnut Avenues adjacent to a freeway interchange. This site will be leased to the Association on a long-term basis (approximately 40 years) by the trustees pursuant to a ground lease.

The Save Mart Center will be the premier event destination for central California. The Center will be able to accommodate a variety of sporting and entertainment events and will be the largest venue of this type in the San Joaquin Valley. Over one million spectators are projected to visit the facility each year and attend more than 150 events ranging from sporting events, concerts, family shows, and cultural events. Many of these events are not currently available to the citizens of central California due to the limited size of the existing municipal venue.

The design and construction of the adjacent 100,000 sq. ft. west complex that includes a student recreation center, team practice facilities, team offices, a center for innovation and entrepreneurship, and an e-business center will be financed as a separate transaction. The proposed funding sources for bond repayment include student union fees, private gifts, corporate sponsorships, state, and federal support. The construction of approximately 3,600 new surface parking spaces would also be financed as a separate transaction depending upon the fund source identified for bond repayment.

Budget and Financing

The project will be financed through the issuance of tax-exempt bonds by the California State University, Fresno Association, Inc. The bonds will be a limited obligation of the Association, payable solely from pledged revenues generated by the Save Mart Center project and a deed of trust on the Association's long-term leasehold interest under the ground lease. Revenue sources pledged to repay the bonds will include naming rights sponsorship, private contributions and corporate sponsorships, leasing of luxury suites, sale of premium club seats and personal seat licenses, ticket receipts, rentals, royalties, concessions, parking, and other revenues received by the Association in connection with the project. The Association intends to contract with a private arena management company to provide day-to-day management services for the Save Mart Center.

Neither the general credit of the Association nor the revenues of the Association that are unrelated to the Save Mart Center will be pledged to repay the bonds. The Association anticipates two series of bonds will be issued—a senior, rated series of approximately $60 million and a subordinate, unrated series of approximately $5 million. The subordinate series of bonds will be sold in a limited public offering or a private placement only to sophisticated investors. The potential demand for these junior lien bonds has been identified as a development opportunity given the community's continued level of financial support to the university.

In addition to the bonds, the Association will utilize certain of its other funds (to be received from revenues realized during construction from naming rights sponsorship; private contributions and corporate sponsorships; leasing of luxury suites; sale of premium club seats and personal seat licenses) to pay for a portion of the construction cost of the Save Mart Center (approximately $30 million).

The financial plans supporting the project estimates nearly $1 million of net surplus revenues to the Association 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. Cash flows for years one through five, 10 and 15 of operations are provided in the table below.

Projected Cash Flows

($000s)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 10	Year15
Revenues	$8,448	$8,515	$8,621	$8,730	$8,843	$11,425	$9,140
Operating Expenses	3,018	3,109	3,202	3,298	3,397	3,938	4,566
Net Operating Income	5,429	5,405	5,418	5,432	5,445	7,496	4,574
Other Revenues	1,135	1,135	1,135	1,135	1,135	1,135	1,135
Available for Debt Service	6,564	6,540	6,553	6,567	6,580	8,621	5,709
Senior Debt Service	4,332	4,273	4,215	4,256	4,191	5,375	3,503
Subordinate Debt Service	450	450	450	550	541	496	451
Other Expenses	800	800	800	800	800	800	800
Net Surplus	982	1,017	1,088	960	1,048	1,949	954

The Association has retained Salomon Smith Barney as senior bond underwriter and Dain Rauscher as co-managing underwriter, Metropolitan West as financial advisor, and Orrick Herrington Sutcliffe as bond counsel. The following summarizes key current projected information for the proposed financing:

Financed amount:	not to exceed: $80 million
Term:	30 years
Projected rate (all-inclusive cost):	6.50% percent on the senior bonds; 9.00% on the subordinate bonds
Debt service coverage:	Minimum of 1.50 times on senior bonds increasing to 1.75 over term of bond, 1.35 times on subordinate bonds.
Bond insurance commitment:	To be determined.
Bond intrinsic rating:	Minimum investment grade rating expected for senior bonds, unrated subordinate bonds. Preliminary analysis performed by both Fitch and Moody's indicate that the

financing will be able to achieve an investment grade rating.

Refunding Housing Bonds

In order to proceed with the Save Mart Center bond issue, the Association must re-structure its outstanding bonds for certain student housing facilities located on campus. The housing bonds were issued by the Association during 1995 and are currently outstanding in the aggregate principal amount of $7,940,000. The bond indenture for the housing bonds stipulates that both general corporate revenues of the Association as well as housing revenues secure the bonds. In order to proceed with the Save Mart Center bond issue, it is necessary to modify the housing bond indenture to provide that the housing bonds will be secured solely by housing revenues, thereby removing the lien on other, non-housing corporate revenues.

Except for the foregoing change, the terms of the housing bonds will be unchanged, although the bonds may be sold as uninsured bonds unless the existing insurer (MBIA) or another bond insurer agrees to provide bond insurance for the housing bonds. At current interest rate levels, the re-financing may actually result in modest savings to the Association, reducing debt service by an average of $24,000 per year and in a present value savings of approximately $285,000 or 3.6 percent.

Educational and Economic Benefits

The educational and economic benefits that will be derived from the development of this project are significant. This facility will complement existing University facilities by providing a large, indoor venue for commencement, professional speakers, performing arts, cultural events, and other university-related events. The benefits of having access to a state-of-the-art venue like the Save Mart Center include enhanced student recruitment and improved quality of life for students and the surrounding community. In addition to providing a facility for athletic events, the Center will be able to host large entertainment and cultural events including the University's Lecture Series. Students and faculty will have access to a variety of cultural events that previously could not be attracted to this region due to lack of adequate facilities.

The University is considered a major economic force in the Central Valley. This project will constitute a significant economic asset to the cities of Fresno and Clovis and the entire central California region generating significant local revenues and thousands of new jobs for central California residents. Since there is substantial evidence demonstrating the benefits that arenas and event centers have on local economies, the University retained Keyser Marston Associates to complete an economic benefits analysis for the project. The analysis concluded that the construction of this project would generate approximately 1,444 new full-time jobs during the two-year construction period. Total construction expenditures in the Central Valley will be approximately $150 million based on a direct construction cost of $103 million. The construction will generate approximately $400,000 of new local tax revenues. Once completed, the project will support approximately 300 new full-time jobs in the central Valley with an annual payroll of approximately $4 million. It will generate approximately $18 to $22 million of new expenditures in the annually and $300,000 of new local sales and transient occupancy tax revenues.

Alternative Uses and Value of Land

The approved site for the Save Mart Center was determined through extensive consultation with the campus community, completion of an early site feasibility study, and evaluation of alternative sites during the EIR process. All of these efforts concluded that the current site approved on the campus master plan was determined to be the "most appropriate" given the proposed land use. The site is located east of the main academic campus and can be accessed from Shaw Avenue, a major, six-lane, east west artery. In addition, the site is adjacent to a recently completed freeway interchange (State Route 168) that links the University to downtown Fresno and the foothills east of the City of Clovis.

Due Diligence

This project has been presented to the Board of Trustees at various stages of development. In 1997, an information item summarizing the concept for the project and proposed financing structure was presented to the Committee on Finance. At their November 1999 meeting, the Trustees certified the final Environmental Impact Report, approved a campus master plan revision to include the site for the project, and amended the 1999/2000 non-state capital outlay program to include the project. At their January 2000 meeting, the Trustees approved the naming of the facility as the Save Mart Center and approved schematic plans. The California State University, Fresno Association, Inc. has approved the issuance of these bonds, the ground lease, construction contracts and other arrangements for proceeding with construction and financing of the Save Mart Center.

During this timeframe, nationally recognized consultants were brought in to provide guidance and expertise on issues unique to sports facility projects. Conventions Sports & Leisure prepared a Premium Seating Study to validate the quantity and pricing levels for premium seating as well as study to determine the impact on the market given that there would now be two venues Selland Arena and the Save Mart Center. SMG, a national management firm specializing in arenas, stadiums, and convention facilities was selected to provide pre-opening management services and developed the projected operating budget for the facility based on their extensive knowledge of the market. Keyser Marston Associates, Inc. completed an Assessment of Economic and Fiscal Benefits to quantify the economic benefits that this project will have on the Central Valley region. Most recently, Economic Research Associates (ERA) was retained to conduct an independent financial analysis and market study. This information has been instrumental in working with the rating agencies as they complete their preliminary analysis.

Since certification of the final EIR, the university has been working very closely with the cities of Fresno and Clovis to identify alternative funding sources for implementation of traffic related improvements. The state's 2000/01 budget includes $8 million allocated to the university from the Governor's Traffic Congestion Relief (TCR) program to help fund some of the necessary improvements that need to be completed before opening of the Save Mart Center.

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 CSU Fresno Association 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.

Recommended Action

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.

The following resolution is recommended for approval:

> **RESOLVED,** By the Board of Trustees of the California State University, that the trustees support the construction of The Save Mart Center at California State University, Fresno and authorize the campus in consultation with the Chancellor's Office to execute agreements necessary to implement the development plan for the project.