

AGENDA

COMMITTEE ON FINANCE

Meeting: 2:15 p.m., Tuesday, September 14, 2004
Glenn S. Dumke Auditorium

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

Consent Item

Approval of Minutes of Meeting of July 13, 2004

Discussion Items

1. Report on the 2004/2005 Support Budget, *Information*
2. Principles Governing a State Funding and Student Fee Policy, *Action*
3. Report on the 2005/2006 Support Budget, *Information*
4. Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for Various Projects, *Action*
5. California State University Annual Investment Report, *Information*

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

July 13, 2004

Members Present

Shailesh J. Mehta, Vice Chair
Roberta Achtenberg
Debra S. Farar
Murray L. Galinson, Chair of the Board
Robert Foster
Eric Guerra
Kathleen Kaiser
Frederick W. Pierce, IV
Charles B. Reed, Chancellor

Members Absent

William Hauck, Chair

Other Trustees Present

Jeffrey L. Bleich
Herbert L. Carter
Carol R. Chandler
George G. Gowgani
Corey Jackson
Melinda Guzman Moore
Kyriakos Tsakopoulos

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, Vice Chancellor Human Resources
Larry Mandel, University Auditor
Patrick Lenz, Assistant Vice Chancellor, Budget Development
Karen Y. Zamarripa, Assistant Vice Chancellor, Advocacy and Institutional Relations

Chair Mehta called the meeting to order at 2:35 p.m.

Approval of Minutes

The minutes of May 19, 2004 were approved.

Report on the 2004/2005 Support Budget

Trustee Mehta announced that the item would be presented by Mr. Richard P. West, executive vice chancellor and chief financial officer, and Mr. Patrick J. Lenz, assistant vice chancellor, budget development. Mr. West reported there had been no word yet on a final budget. He indicated that he and staff members were continuing to closely monitor the events in Sacramento, and said he was hopeful there would be a conclusion to the budget process in the very near future.

Mr. West then asked Patrick Lenz to present an overview on the status of the budget indicating it would be familiar material for current trustees, and would provide helpful background information for the newest members of the board.

With the use of detailed PowerPoint presentation, Mr. Lenz reviewed the history and background of the budget process leading up to the current budget scenario. He pointed out that some of the top priorities for the next budget year would include: student access and enrollment; Outreach, the Educational Opportunity Program (EOP), academic preparation programs; student fees; and financial aid.

For the benefit of the new trustees, Mr. Lenz also reviewed the history of the budget compact, and updated them on the details of the current compact between the Governor, the CSU, and the UC. Mr. Lenz mentioned there have been some critical concerns about the compact representing an unfair deal for the CSU. He clarified that the compact represents a 'floor' not a ceiling, and that it does not preclude the legislature or the administration from augmenting priorities that need to be met within the CSU or UC.

Mr. Lenz reported that in their final subcommittee actions, the Senate approved an augmentation \$247.4 million, and the Assembly approved \$218.6 million to address CSU funding priorities that include enrollment growth, outreach programs, a cost-of-living adjustment, and funding to offset increases in student fees. Additionally, both subcommittees took action to deny the Governor's proposed redirection of first-time freshmen to the community colleges and reject the implementation of an "excess units" recommendation.

Trustee Guerra commented that he was glad to see some signs of stability but said it was important to continue to convey the message about how further cuts will affect students and their families. He said a stronger effort was still needed to reinforce the message about the need for additional support.

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

Mr. West explained that work has been ongoing in reviewing the existing trustees fee policy in an attempt to reconcile it with the current budget environment. He noted that he had asked Ms. Karen Zamarripa, assistant vice chancellor, advocacy and institutional relations, to assume additional duties to work with the students, academic senate, campus presidents, the Systemwide Budget Advisory Committee (SBAC), and the chancellor, in an attempt to formulate some consensus with respect to how we are going to adjust the fee policy. Mr. West said he was hopeful that a final recommendation would be made to the board at the September meeting.

Again, for the benefit of the new trustee members, Ms. Zamarripa provided a detailed Powerpoint presentation and overview of the history and status of the CSU Student Fee Policy.

Ms. Zamarripa reported on her discussions with the various groups noting that they have generally come to agreement on many of the principles. One of the key principles being development of an accountability report that would hold the state accountable for their share of the cost of education and hold us accountable for the students' share of that cost. It was also agreed that we should adjust undergraduate fees gradually to reach the specified share of costs paid by the students. Another area mentioned for possible consideration is the development of a graduate fee differential to be coupled with a graduate financial aid program.

Trustee Mehta asked if the non-resident student fee will be included in the new policy or kept separate. Mr. West replied it would be kept separate at this point.

Trustee Pierce expressed concern that in the long run, there is a potential that the cost of education could grow at a higher rate than per-capita income and asked if there would be some type of mechanism to adjust for that. Ms. Zamarripa replied that is one of the reasons for development of an annual accountability report that would be presented each fall for consideration in the budget request considerations.

Trustee Guzman said it would be helpful to her as a new trustee, and particularly with making decisions on board recommendations, to have detailed information on the actual target audience with respect to those recommendations. Trustee Pierce suggested that the CSU Statistical Abstract was an extremely helpful tool and could provide new board members with much valuable information.

After a lengthy discussion, Ms. Zamarripa indicated the next steps would be to move ahead on work with the students and academic senate and to make some final determinations on how to proceed with implementation.

Trustee Achtenberg thanked Ms. Zamarripa for the work done so far, and said she anticipates reaching an agreement and adoption in September of an updated, rational, and hopeful fee policy for the system.

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

Before presenting the item, Mr. West introduced and welcomed Ms. Colleen Nickles, the newly appointed Senior Director for Financing and Treasury. Ms. Nickles replaces Rick Leffingwell, who retired in April.

Mr. West explained the item requested the Board of Trustees to authorize the issuance of Systemwide Revenue Bonds and interim financing to provide needed funds for an expansion to the CSU, Hayward student union. The project cost is \$13,903,285, of which \$2,500,000 will be paid from student union reserves and the remaining balance will be paid from the financing proceeds. 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 as the existing Systemwide program bonds.

Mr. West noted the campus received good bids on the project, and expects to open the facility in February 2006.

The committee recommended approval of the proposed resolution (RFIN 07-04-07).

The meeting adjourned at 3:38 p.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 the final actions of the two-house budget conference committee, Senate and Assembly floor actions, and the Governor's Office final actions on the 2004/05 CSU budget.

2004/05 Support Budget

Last December, the Administration proposed a \$28.3 million mid-year budget reduction to the 2003/04 CSU budget in an effort to address the state's \$30 billion fiscal crisis. The next month the Governor submitted to the legislature his 2004/05 state budget that called for \$239.7 million in General Fund reductions to the CSU, increasing student fees (10 percent undergraduate, 20 percent nonresident, 40 percent graduate) and three new initiatives related to students taking excess units, redirecting first-time freshman to the community colleges, and a long-term student fee policy. The net fiscal impact to the CSU given the previous two years of budget reductions, the 2003/04 mid-year budget cut and the proposed 2004/05 budget reductions totaled \$562 million to the University's budget.

In the two years prior to the 2004/05, the CSU managed budget cuts by reducing administrative staff, travel, staff development, academic support, student services, implementing a hiring freeze and raising student fees. However the magnitude of \$269.7 million budget reductions, due to the 2003/04 mid-year cuts and proposed reductions in 2004/05, required the CSU to implement an enrollment management plan to reduce by 5 percent the number of students the University would admit for the 2004/05 academic year. Despite the concerns raised by the Administration and the legislature that CSU was denying access to thousands of students, this policy was consistent with the Chancellor's obligation that CSU campuses be able to serve those students the state had an ability to fund. In addition, CSU made a commitment to provide "authentic access" to enrolled

students to ensure they could receive the courses they 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 CSU budget issues identified in the Governor's January budget. The budget subcommittees heard testimony from the Department of Finance (DOF) on the specific recommendations in the Governor's budget and from the Legislative Analyst's Office (LAO) on its alternative budget approach to funding higher education. The major issues of concern included enrollment and admissions, outreach and academic preparation programs, the Educational Opportunity Program (EOP), student fees, CSU State University Grants and the Student Aid Commission Cal Grants financial aid, and capital outlay projects.

The budget subcommittees thoroughly reviewed the Governor's proposed budget recommendations and allowed considerable testimony from DOF, LAO, CSU and the public. Prior to the subcommittee taking final action on the Governor's January budget, 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 Governor's proposed 2004/05 budget reductions, and in return, the two higher education systems would receive a long-term funding agreement from the Governor beginning in the 2005/06 fiscal year. This agreement caused great concern with the legislature because members wanted to use the higher education budget reductions as leverage to initiate a tax increase and to focus on the students being denied the opportunity to have access to the CSU or 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 adjustments, 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" policy.

The Senate and Assembly leadership came to an agreement with the Governor that was subsequently adopted by the two-house budget conference committee. This agreement rejected the Administration's recommendation to redirect 3,800 first-time freshmen from the CSU to the community colleges by providing a budget augmentation of \$21.3 million. As part of this specific recommendation, the conference committee adopted budget bill language requiring the CSU, and requesting the UC, to establish a systemwide dual admissions program where students could voluntarily attend a California community college, get their community college fees waived, and subsequently be admitted to the CSU (and the UC). The leadership agreement with the Governor also provided an additional \$12 million to fund student access and \$7 million for outreach programs, academic preparation, and the Educational Opportunity Program (EOP). The

\$7 million, added to the \$45 million that CSU was redirecting for these programs, allowed the CSU to fully maintain the \$52 million that was proposed for elimination in the Governor's January budget for these programs.

While the CSU was provided with \$40.3 million for enrollment and outreach programs, academic preparation, and EOP, it should be recognized that the net fiscal impact to the CSU in the 2004/05 fiscal year resulted in a loss of \$157 million. Given the 2004/05 budget reductions and budget cuts from the prior two fiscal years the CSU is still facing a net fiscal impact of \$524 million. The Compact Agreement for Higher Education that will begin with the 2005/06 fiscal year will begin the recovery efforts to reinvest in the California State University.

This is an information item for the Board of Trustees and requires no action.

COMMITTEE ON FINANCE

Principles Governing 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

Last fall the Board requested Chancellor Reed to review the student fee policy adopted in 1993 and to recommend any necessary modifications to the existing policy statement. The Chancellor's Office staff 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 intent of the policy revisions under discussion with CSSA, ASCSU and the Presidents is 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 and also to campuses and the CSU system as a whole in managing resources to best meet the needs of students.

As the policy revisions have evolved in the course of ongoing discussions, 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.

Existing Policy

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 could study at CSU by the level of support it provides;
2. Fee revenues should be used to improve and support the quality of the educational program;
3. There should be differential fees to recognize the cost differences in providing graduate and undergraduate education;
4. There should not be restrictions on the use of fee revenue to improve instruction; and
5. Changes in fee policy should be accompanied with reformed and enhanced student financial aid policies and award programs.

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. The 2004/05 legislative session saw several fee bills introduced, of which one, AB 2710 (Liu), has gone to the Governor for signature. This measure puts in place a mandatory fee policy that is contrary to the provisions of the Compact and we anticipate it will be vetoed for this reason. The last statutory fee policy was allowed to sunset in 1996.

Recommended Action

The following general principles of the proposed fee policy have been discussed with the campus presidents, the CSSA leadership, and the ASCSU leadership and many are consistent with the Board's existing policy. 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, 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.

The following resolution is recommended for approval:

RESOLVED, By the Board of Trustees of the California State University, that the following policy statement be adopted:

Principles Governing a State Funding and Student Fee Policy

- 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.
- Resident undergraduate and post-baccalaureate fees should be adjusted on an annual basis until they reach a level which is equivalent to one-third (33%) of the cost of their education;
- The cost of education would be defined as the average cost per student based on the total General Fund appropriation, State University Fee Revenue for the CSU in the year prior to the fiscal year in which fees will be assessed, and budget deficiencies;
- Annual resident undergraduate and post-baccalaureate fee increases would be up to 10% each year;
- Resident graduate fees would be raised to a level equivalent to 150% of the undergraduate fee level (post-baccalaureate students are treated as undergraduates

throughout these principles). Graduate fees would be adjusted at 10% per year for 2005/06 and 2006/07, followed by annual 15% adjustments until the 150% threshold is reached (2010/11);

- Once the fees for all students reach these levels, they would then be adjusted annually based on the change in California per-capita income;
- CSU would continue to set aside a portion of new fee revenue from fee rate increases and enrollment growth (a range of 20-33%) for the State University Grant (SUG) program based on student need as well as federal and state financial aid programs and funding;
- 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; and
- A critical component of the policy is the state's commitment to funding per student, and if this is not met the Board of Trustees must act in the best interest of the University, which may include fee increases of greater than 10% annually.

COMMITTEE ON FINANCE

Report on the 2005/2006 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 the preliminary discussions that have occurred with the Systemwide Budget Advisory Committee (SBAC) and the Executive Council on the development of the 2005/06 CSU budget. The Board also will be provided the timeframe for the internal development of the University budget, discussions with the Department of Finance and the Governor's Office, and the legislative schedule for taking actions on the state budget.

2005/06 Support Budget

In May, the CSU and the University of California (UC) negotiated a Compact for Higher Education with the Governor's Office to begin the fiscal recovery of the university and establish long-term funding stability to enroll students, restore academic and student services programs, provide for moderate, predictable and affordable student fees, and make progress on salaries for staff and faculty at the CSU. The CSU's current inability to fund these priorities is attributed to the lack of state funding over the past three years that has resulted in a net fiscal impact of \$524 million to the CSU budget. This Compact agreement is similar to the funding of Partnership agreements with prior Administrations that not only provides fiscal stability to the University, but also allows for future planning for enrollment, student fees, financial aid, compensation and restoration of the academic infrastructure (libraries, technology equipment, deferred maintenance).

The level of fiscal uncertainty and resulting inability of the University to plan is never in the best interest of students. The UC and CSU agreed to do their part in accepting the 2004/05 budget reductions and contribute to the solution for resolving the state's fiscal crisis in return for a funding agreement that begins in 2005/06 and is effective through 2010/2011. This six-year agreement provides, for both universities, funding for 2.5 percent enrollment growth (5,000

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FTES at UC, 8,000 FTES at CSU – per year), and a 3 percent increase in base funding in the first two years, a 4 percent increase in 2007/08, and a 5 percent increase in fiscal years 2008/09 through 2010/2011. This agreement also assumes undergraduate student fees will increase by no more than 8 percent in the first two years of the Compact.

This is an information item in preparation for the October Board of Trustees meeting to take action on the 2005/06 CSU budget.

COMMITTEE ON FINANCE

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

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 \$28,505,000 to provide needed funds for the construction of two projects. To facilitate maximum flexibility in the commercial paper program, the Board is being asked to approve separate resolutions relating to each project. The long-term bonds for the projects 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 projects are as follows:

1. California State University, Northridge University Union Renovation, Phase II

Previously the Board of Trustees approved the amendment of the Nonstate Funded Capital Outlay program and schematics for the student union renovation project. The project was delayed by over a year due to the receipt of construction bids that were higher than anticipated and subsequently a redesign of the project into two phases. The Phase I project was approved for financing by the Board in September 2003 and is on schedule to be completed in October 2004. The Phase I project renovated a pub, constructed a pedestrian walkway, two retail/food venues, a new entrance and restrooms for the performance art center, and demolished building A, which had meeting rooms, offices, retail space and a lounge. The demolition was necessary to prepare the area for the Phase II project, the subject of this item. The Phase II project will include new retail/food venues, lobby/lounges, clubs and organization spaces, a computer lab, coffee house, and convenience store. The renovation project scope was overwhelmingly approved in a May 2000 student referendum.

The not-to-exceed par value of the proposed bonds is \$9,515,000 and is based on total project costs for the Phase II of \$10,075,507, of which \$1,500,000 will be paid from campus student

union reserves, and the remaining balance will be paid from financing proceeds. The campus received good project bids and expects to open the Phase II project in November 2005.

The following table provides information about the financing transaction.

Not-to-exceed amount:	\$9,515,000
Amortization:	Approximately level over 30 years
Pro-forma combined maximum annual expected debt service:	\$665,819
Projected debt service coverage including the new project: ¹	
Gross revenue – all Northridge pledged revenue programs:	5.77
Net revenue – all Northridge pledged revenue programs:	2.41
Net revenue – projected for the Northridge Student Union Program:	1.58

1. Projected information – Combines unaudited 2003/04 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, the maximum annual debt service, and the ratios above are based on the construction project bids, expected debt service and capitalized interest at the current interest rate environment plus 100 basis points (computed average coupon rate 5.76%; August 18, 2004). This 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, which is the CSU program standard. The campus has submitted a financial plan that has a 1.58 program net revenue debt service coverage that meets the CSU benchmark of 1.10. The campus combined net revenue debt service coverage from all pledged revenue programs is above the 1.35 times debt service system benchmark.

The campus is managing its overall use of debt so that with the Phase II project, the campus debt payments will total approximately 3.07% of its net unrestricted expenditures, which is within the maximum CSU internal benchmark allocation of 4.0% for campuses.

2. California State University, Fresno West Complex - Student Recreation Center Project

Previously, the Board of Trustees approved the amendment of the Nonstate Funded Capital Outlay program and schematics for the West Complex – Student Recreation Center project. In November 2000 the California State University, Fresno students voted to support the increase of student body center fees to build this project.

The West Complex – Student Recreation Center is a recreational and multipurpose facility designed to enhance student life on campus. It will be located west of the recently completed Save Mart Center, a 16,000-seat multipurpose on-campus arena. The 92,000 gross square foot

building will include a fitness area with cardiovascular equipment and free weights, four intramural/practice gymnasiums, two aerobic rooms, two racquetball courts, locker rooms, multipurpose meeting/game rooms, and administrative and staff offices. The project will also include leased space for the Lyles Center for Innovation and Entrepreneurship and the Peters Educational Center, both university supported programs, and a small parking lot with 36 spaces.

At the time this agenda item was written, the campus was amending a ground lease to exclude the West Complex area from the Save Mart Center. The campus is aware that the funding of the project is contingent upon having the lease amended and having full title of the land available for the financing of the West Complex.

The not-to-exceed par value of the proposed bonds is \$18,990,000 and is based on estimated student union recreation center project costs of \$18,645,000 of which \$500,000 will be paid from campus student union reserves, \$206,000 from parking reserves and \$840,000 from donor funds. The remaining balance will be paid from financing proceeds. At the time the agenda item was written the campus was awaiting receipt of construction bids. The campus expects to award the contract in October 2004 so that the recreation center project is scheduled to be completed in December 2005.

The following table provides information about this financing transaction.

Not-to-exceed amount:	\$18,990,000
Amortization:	Approximately level over 30 years
Pro-forma maximum annual expected debt service:	\$1,326,993
Projected debt service coverage including the two new projects: ¹	
Gross revenue – all Fresno pledged revenue programs:	6.58
Net revenue – all Fresno pledged revenue programs:	2.07
Net revenue – projected for the campus Student Union program:	1.13

1. Projected information – Combines unaudited 2003/04 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 \$18,990,000, the maximum annual debt service, and the ratios above are based on an estimated construction project bid amount, expected debt service and capitalized interest at the current interest rate environment plus 100 basis points (computed average coupon rate – 5.76%; August 18, 2004). This 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, which is the CSU program standard. The campus has submitted a financial plan that has a 1.13 program net revenue debt service coverage that meets the CSU benchmark of 1.10. The campus

combined net revenue debt service coverage from all pledged revenue programs is above the 1.35 times debt service system benchmark.

The campus is managing its overall use of debt so that with the recreation center project, the campus debt payments will total approximately 3.17% 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 each project described in this agenda item that authorize interim and permanent financing for the projects. 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 \$28,505,000 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 separate sets of the financing resolutions for the following projects as described in this agenda item is recommended for:

- 1. Northridge University Union Renovation, Phase II Project**
- 2. Fresno West Complex - Student Recreation Center Project**

COMMITTEE ON FINANCE

California State University Annual Investment Report

Presentation By

Dennis Hordyk
Assistant Vice Chancellor
Financial Services

Summary

This item provides the annual investment report for fiscal year 2003-04 for funds managed under the California State University (CSU) Investment policy.

At the January 1997 meeting, the Board of Trustees approved the creation of a centralized investment program to manage the investment of funds held in CSU trust accounts. In addition, the Board of Trustees approved an investment policy consistent with the authority provided in existing statutes to guide the CSU in administering the investment program. The Board of Trustees 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 was hired to manage the investment program for the CSU.

The attached Year End Investment Report, Attachment A, has been prepared by Metropolitan West for the Board of Trustees and provides the results of the investment program for the fiscal year ended June 30, 2004.

The State Treasurer also provides investment vehicles that may be used for CSU funds. The Surplus Money Investment Fund (SMIF) is used by the State Treasurer to invest state funds in a short-term pool at virtually no risk. The Local Agency Investment Fund (LAIF) is used by the State Treasurer to invest local agency funds. The year-end results for these two funds are reported in Attachment B, which has been prepared by the Office of Financing and Treasury.

The Board of Trustees' Investment Policy is included as Attachment C.

YEAR END INVESTMENT REPORT FOR THE FYE 6/30/04

PREPARED BY METROPOLITAN WEST FOR THE
CALIFORNIA STATE UNIVERSITY

MARKET SUMMARY

The 2003-04 Fiscal Year was marked by an increase in interest rates from their historic lows of the past couple of years. On June 28, 2004, the Federal Reserve Board raised its target overnight funds rate from its forty-year low of 1.00% to 1.25%. The U.S. Treasury 2-year Note rate rose from 1.31% at the end of June 2003 to 2.68% at June 30, 2004; and the 10-year Note rate rose from 3.51% to 4.58% in that same time period.

Jobs growth improved considerably in the last 6-months of the fiscal year, which was reflected in higher bond yields. The improved jobs market also helped dampen some of the negative effects higher yields would normally have on stocks. As of the end of the fiscal year, expectations were for GDP to exceed 5% in the second half of 2004. During the just-completed fiscal year, the building economic expansion, coupled with record-high federal budget deficits, produced a shift from a fear of deflation to growing concerns of future inflation.

The last year proved to be less favorable than prior years for the fixed income accounts, with the shorter portfolios performing the best. Jobs and economic growth, along with increased consumer confidence, provided the backdrop for comparatively weak returns for fixed income securities.

PROGRAM PERFORMANCE SINCE INCEPTION

Since the CSU Investment Program was launched in September 1997, it has provided an effective vehicle for the investment of campus operating reserves and other short-term holdings. The following chart illustrates how the accounts have provided long-term benefit to participants relative to the Local Agency Investment Fund (LAIF).

	Fiscal Year 2003-04	Trailing Three Years¹	Trailing Five-Years¹	Since Inception¹
Short-Term Account	0.99%	2.25%	3.93%	4.49%
LAIF	1.55%	2.42%	3.87%	4.37%
Medium-Term Account	0.00%	5.52%	6.47%	6.51%
Merrill Lynch 5-7 Year Index	-1.16%	6.67%	7.19%	7.09%
Long-Term Account	0.31%²	7.26%²	N/A	9.79%²
Merrill Lynch 7-10 Year Index	0.48% ²	7.78% ²	N/A	9.99% ²

¹ Annualized.

² Long-Term Account and Merrill Lynch 7-10 Year Index returns are through February 29, 2004, the closure date for the Long-Term Account.

SHORT-TERM ACCOUNT PERFORMANCE
Fiscal Year 2003-04

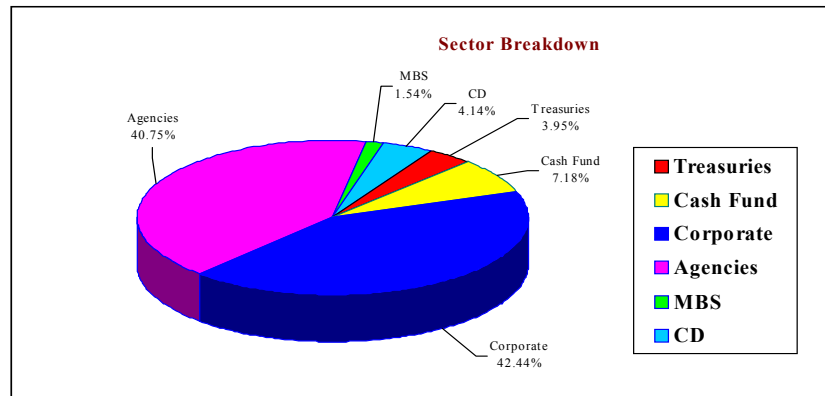
As of June 30, 2004, the asset balance in the Short-Term Account totaled \$303 million. The objective of the Short-Term Account is to maximize current income along with preservation of capital. Consistent with the CSU investment policy, the portfolio is restricted to US Treasury securities, mortgage-backed 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
June 30, 2004

Corporate Securities	42.44%
US Government Agencies	40.75%
US Treasuries	3.95%
MBS	1.54%
CD	4.14%
Cash Fund	7.18%

The Short-Term Account provided a return of 0.99% during the 12 months ended June 30, 2004. This return underperformed the 12-month return for LAIF. Because of the relatively short duration in the CSU Short-Term Account, the portfolio outperformed slightly longer fixed income benchmarks, like the Merrill Lynch 1-3 Year Treasury Index.

**California State University System
CSU Short-Term Account
6/30/2004**



MEDIUM-TERM ACCOUNT PERFORMANCE

Fiscal Year 2003-04

(Formerly referred to as the Total Return Account)

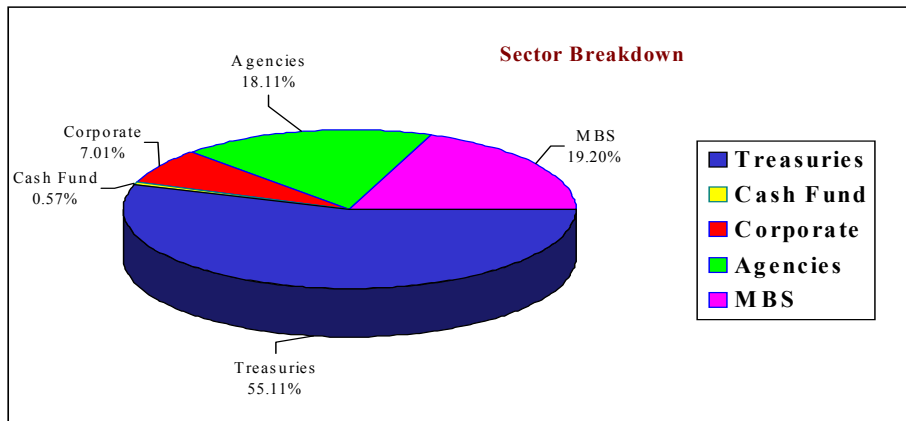
The objective of the Medium-Term Account is to provide long-term value to participants from investment in high-quality, medium-range securities; typically those with a remaining term to maturity of three to six years at the time of purchase. The Account is invested in a diversified portfolio of fixed income securities of varying maturities with an approximate portfolio duration of 3.75 to 5.75 years. The account is benchmarked versus the Merrill Lynch 5-7 year Treasury Index, and is structured to outperform LAIF over a 5-7 year investment horizon with less volatility than the Index. As of June 30, 2004, the net asset value of the account was \$192 million.

Consistent with the CSU investment policy, the Medium-Term Account portfolio is restricted to US Treasury securities, mortgage-backed 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 Medium-Term account are as follows:

**California State University Medium-Term Account
Sector Breakdown as of
June 30, 2004**

US Treasuries	55.11%
Corporate Securities	7.01%
US Government Agencies	18.11%
MBS	19.20%
Cash Fund	0.57%

**California State University System
CSU Medium-Term Account
6/30/2004**



The Medium-Term Account provided a return of 0.00% during the 12 months ended June 30, 2004. This return was less than the 12-month return for the Local Agency Investment Fund. Because of the shorter duration securities in the CSU Medium-Term Account, the portfolio outperformed relative to its benchmark index, the Merrill Lynch 5-7 Year Treasury Index.

LONG-TERM ACCOUNT 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 an approximate portfolio duration of 5 to 7 years.

As a result of its review of economic and market conditions, the Investment Committee took action in February 2004 to close the Long-Term Account until such time as the risk/return profile is more favorable for investment in longer term securities. Consequently, reported returns for the Long-Term Account cover the eight-month period from July 1, 2003, through February 29, 2004. For this period, the Long-Term Account provided a return of 0.31%, on an annualized basis. This Account slightly underperformed relative to its benchmark, the Merrill 7-10 Year Treasury Index, which increased by 0.48% over that eight-month period.

Events in the market have validated the Committee's decision to close the Long-Term Account. From February 29, 2004 (the date assets were transferred out of the Long-Term Account) through June 30, 2004, the Merrill 7-10 Year Index --- the Long-Term Account benchmark -- was down 2.99%, while the Medium-Term Account was down only 1.17%, and the Short-Term Account was up .07%.

Surplus Money Investment Fund (SMIF)

The Surplus Money Investment Fund (SMIF) is a vehicle used by the 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 June 30, 2004, the amount of CSU funds invested in SMIF was \$46.1 million.

SMIF Performance Report Apportionment Yield Rate

06/30/2004:	1.441%
06/30/2003:	1.890%

SMIF Past Performance 1997-2004

Average:	4.360%
High:	6.493%
Low:	1.441%

Local Agency Investment Fund (LAIF)

The Local Agency Investment Fund (LAIF) is a vehicle used by the State Treasurer to invest local agency funds. LAIF is administered by the State Treasurer's Office. All investments are purchased at market, and market valuation is conducted quarterly. As of June 30, 2004, the amount of CSU funds invested in LAIF was \$40.1 million.

LAIF Performance Report Apportionment Yield Rate

06/30/2004:	1.44%
06/30/2003:	1.77%

LAIF Past Performance 1997-2004

Average:	4.37%
High:	6.52%
Low:	1.44%

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 89724 in any of the securities authorized by Government Code Section 16430 and Education Code Section 89724, listed in Section A subject to limitations described in Section B.

A. State Treasury investment options include:

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

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.

(Approved by the CSU Board of Trustees in January, 1997)