

COMMITTEE ON FINANCE

California State University Annual Debt Report

Presentation By

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Summary

This item reports on the debt of the California State University Systemwide Revenue Bond program in accordance with the CSU Policy on Financing Activities (RFIN/CPBG 11-14-01).

Background

The Systemwide Revenue Bond (SRB) program, under provisions and authorities of the State University Revenue Bond Act of 1947 (California Education Code sections 90010-90083), was established by the CSU Board of Trustees at its March 2002 meeting. Since the inception of the SRB program, the CSU Policy on Financing Activities has set forth the principles that serve as the basis for the SRB program and has provided the chancellor with authority to establish procedures for the management of the SRB program consistent with the Board of Trustees' objectives for the use of debt, including the establishment of benchmark financial ratios to ascertain the financial viability of projects to be financed with CSU debt. The current CSU Policy on Financing Activities (RFIN/CPBG 11-14-01) was amended by the Board of Trustees in November 2014 and can be found at: <https://calstate.policystat.com/policy/11691604/latest>.

The SRB program provides capital financing for projects of the CSU approved by the Board of Trustees, including student housing, parking, student union, health center, continuing education facilities, certain auxiliary projects, and other academic facilities. Revenues from these programs and revenues approved by the Board of Trustees, including CSU operating funds, are used to meet operational requirements for the projects and to pay debt service on the debt issued to finance the projects. A strength of the SRB program is its consolidated pledge of gross revenues to the bondholders, which has resulted in strong credit ratings and low borrowing costs for the CSU.

Since the inception of the SRB program, the CSU has also issued commercial paper (CP) primarily to provide campuses with short term, lower cost capital financing on projects until long term bonds

are sold. The CSU Institute, a systemwide auxiliary of the CSU, issues the CP, which is secured by bond anticipation notes issued by the CSU. The CSU currently has a CP program in the amount of \$300 million, although both the Board of Trustees and the CSU Institute have authorized a CP program up to \$500 million. The CP program is supported by letters of credit from State Street and Wells Fargo N.A. that expire in May 2025.

SRB and CP Portfolio Profile

As of June 30, 2023, and December 31, 2023, outstanding SRB debt of the CSU was approximately \$8.6 billion and approximately \$9.1 billion, respectively.

Key characteristics of the SRB portfolio are as follows:

Debt Ratings:	Aa2 (Moody's)
	AA- (Standard & Poor's)
Weighted Average Cost of Capital:	3.35%
Weighted Average Maturity:	15.0 Years
Interest Rate Mix:	97% Long Term Fixed Rate
	3% Short Term Fixed Rate

As of December 31, 2023, outstanding CP was \$147,225,000 at a weighted average interest rate of 4.40 percent.

SRB Operating Performance and Debt Service Coverage Ratios

For the fiscal years ended June 30, 2021, June 30, 2022, and June 30, 2023, operating performance and debt service coverage ratios for the SRB program were as follows (amounts in millions; June 30, 2023 figures are preliminary):

	<u>June 30, 2021</u>	<u>June 30, 2022</u>	<u>June 30, 2023</u>
Operating Revenues	\$4,790	\$5,362	\$5,606
Operating Expenses	<u>1,622</u>	<u>1,886</u>	<u>2,307</u>
Net Revenues	3,168	3,476	3,299
Annual Debt Service	\$470	\$489	\$514 ¹
Debt Service Coverage ²	6.74	7.11	6.42

(1) For the fiscal year ended June 30, 2023, the amount of annual debt service allocated to tuition was \$147 million and the amount allocated to other fees was \$367 million.

(2) The minimum benchmark for the system, as established by executive order, is 1.45.

Activity since the March 2023 Annual Debt Report

Series 2023A and Series 2023B SRB Issuance, and Series 2016B-3 SRB Remarketing

In July 2023, the CSU issued \$899,355,000 of SRBs comprised of the following series:

Series 2023A (Tax-exempt):	\$337,155,000
Series 2023B (Taxable):	\$462,200,000
Series 2016B-3 (Tax-exempt put bond remarketing):	<u>\$100,000,000</u>
Total par amount of the bonds:	\$899,355,000

All of the proceeds from the Series 2023A and Series 2023B bonds were used for new money projects, with the Series 2023A bonds issued at an all-in true interest cost of 4.03 percent and the Series 2023B bonds issued at an all-in true interest cost of 5.17 percent. The Series 2016B-3 put bonds were remarketed for an additional three years at a rate of 3.125%.

Projects Approved for Financing under Delegated Authority

In March 2018, the Board of Trustees amended Section II(f). of its Standing Orders to delegate authority to the chancellor to, among other things, authorize debt financing for projects valued up to \$40 million and authorize debt financing for all remodels, parking structures, and utilitarian projects, regardless of cost.

Since the last report to the Board of Trustees, under this delegation of authority, the chancellor authorized debt financing for the following projects:

- In March 2023, the San Diego State University – Aztec Shops, Ltd. Viva 5750 Apartment Acquisition project with a not-to-exceed financing amount of \$39,620,000. This project met CSU debt financing benchmarks and was included in the CSU’s 2023 SRB issuance.
- In August 2023, the California Polytechnic State University, San Luis Obispo – Cal Poly Corporation Morabito Place Acquisition and Renovation project with a not-to-exceed financing amount of \$24,150,000. This project met CSU debt financing benchmarks and will be included in a future CSU SRB issuance.
- In September 2023, the San Diego State University – Aztec Shops, Ltd. The Essential Student Housing Property Acquisition project with a not-to-exceed financing amount of \$42,290,000. This project met CSU debt financing benchmarks and will be included in a future CSU SRB issuance.