

AGENDA

COMMITTEE ON FINANCE

Meeting: 9:15 a.m., Wednesday, September 21, 2011
Glenn S. Dumke Auditorium

William Hauck, Chair
Lou Monville, Vice Chair
Roberta Achtenberg
Steven Dixon
Kenneth Fong
Margaret Fortune
Steven M. Glazer
Hsing Kung
Linda A. Lang
Bob Linscheid
Henry Mendoza
Glen O. Toney

Consent Items

Approval of Minutes of Meeting of July 12, 2011

Discussion Items

1. Report on the 2011-2012 Support Budget, *Information*
2. Planning for the 2012-2013 Support Budget, *Information*
3. 2012-2013 Lottery Revenue Budget, *Information*
4. California State University Annual Investment Report, *Information*
5. California State University Investment Policy, *Action*
6. California Polytechnic State University Cal Poly Housing Corporation-Auxiliary Organization Dissolution Approval, *Action*
7. Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments, *Action*

**MINUTES OF THE MEETING OF
COMMITTEE ON FINANCE**

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

July 12, 2011

Members Present

William Hauck, Chair
Lou Monville, Vice Chair
Roberta Achtenberg
Steven Dixon
Kenneth Fong
Margaret Fortune
Steven M. Glazer
Bob Linscheid
Henry Mendoza
Charles B. Reed, Chancellor

Approval of Minutes

The minutes of May 10, 2011 were approved by consent as submitted.

Public Speakers

Trustee Hauck recognized public speakers who asked to speak on the budget, tuition fee increase and undocumented students.

With respect to undocumented students, Chair Carter expressed that the board is on record supporting the Dream Act at the federal and state level and will continue efforts to change the laws to be able to help undocumented students with financial aid.

Trustee Hauck requested that the first two items on the agenda be combined.

**Report on the 2011-2012 Support Budget
Revised 2011-2012 Resident Tuition Fee Increase**

Dr. Benjamin F. Quillian, executive vice chancellor and chief financial officer, noted that the governor recently signed the 2011-2012 budget act, reducing the CSU budget by \$650 million. For the past several weeks, the possibility of a \$1 billion cut loomed large, which the governor had indicated would be necessary if the tax extensions were not approved. Thanks to increased

revenues coming into state coffers, and the fact that the structural deficit was not completely eliminated, it was not necessary, at least at this time, to reduce the CSU budget by the full \$1 billion.

Dr. Quillian further explained that plans were developed to manage the \$500 million budget reduction that was passed by the legislature in March, but an additional \$150 million budget reduction poses new challenges. Without additional revenues managing such a cut would require elimination of 2,300 employee positions, or denying access to 40,000 students, or completely shutting down several of the smaller campuses. None of those options are practicable or in the interest of the CSU or the students it serves. It is important to recognize that when unfunded mandatory costs are included, we are addressing a \$700 million budget reduction. The university has been able to reduce expenditures by \$400 million of the \$700 million, thereby reducing as much as we can the burden that falls to our students.

Robert Turnage, assistant vice chancellor for budget, stated that the state has an on-time budget, but it cuts state support to the CSU by \$650 million. The need for an additional \$150 million cut, beyond the initial \$500 million, would have been averted if the tax extensions were enacted. There also is a potential mid-year cut of another \$100 million in mid-December if certain revenue assumptions are not realized, commonly referred to as the “trigger.” The support that the state has given the CSU has declined by 28% over the last 13 years which explains why the CSU has had to increasingly rely on tuition fee revenue. The CSU is dealing with a total of \$700 million reduction including our mandatory costs, \$400 million of that being met by spending reductions. Tough decisions are being made on institutional efficiencies and efforts are being made at all levels.

Mr. Turnage stated the 12% increase in tuition fees is not a recommendation that is made lightly, but it is being made because there are no other alternatives if the university is going to maintain student access and maintain the quality of the CSU’s institutions going into the future.

Trustee Hauck called for a motion on the resolution (RFIN 07-11-07), which was approved.

Trustee Monville asked Mr. Turnage for a sense of his thinking at this point on whether the triggers would be implemented and whether the CSU would face another \$100 million reduction.

Mr. Turnage responded that this tuition fee increase is directed at the definite \$150 million cut. It will be some time before it can be seen how revenue trends play out, which will allow the university to review all possible options. Additionally, further discussion with the administration and legislature on whether the trigger cut would be one-time or ongoing is required, and the answer to that question would play significantly into the strategy of addressing further cuts.

Mr. Monville stated that he asked the question because in the past, to hold talks about tuition increases at mid-year is tremendously disruptive to the students.

Mr. Turnage responded that the timing presents something of a dilemma but at least there is a possibility that the trigger doesn't get pulled.

Chancellor Reed noted that there had not been any general discussion about a trigger before passage of the budget. He will meet with the presidents next month and they will spend time discussing alternative approaches. He further reaffirmed Mr. Turnage's concern about whether further cuts would be one-time or a cut to the base budget of the university. He will report to the board with more information in September.

Lieutenant Governor Newsom commented that he is responsible for putting together a comprehensive jobs plan for the state. Serious job creation is dependent on a serious commitment to education. The biggest threat to democracy is the loss of the middle class; they are the ones getting squeezed now because such an outstanding job has been done taking care of low-income students. He acknowledged the dilemma facing the CSU and stated that we need to educate the general population about what CSU is doing for the state's economy and for social upward mobility.

Trustee Mehas added that he too is concerned about the middle-class American, who doesn't qualify for any financial aid. It is important to look at those students as well as their parents.

Trustee Guzman shared her belief that once the benefit of a college education is experienced by one person in a community, many others from that same community will follow. She explained that she is not in favor of increasing the tuition fee but the overriding interest in keeping the doors to CSU open must lead the discussion. College is too important of an investment. She urged the chancellor and staff to explore every alternative to avoid another increase in January.

Trustee Glazer wanted to make clear that the tuition increase is to make up for the \$150 million reduction and that of the \$700 million of cuts, \$400 million was done through other reductions. Recognizing the ongoing structural deficit the state is still facing with more difficult decisions ahead, it would be better to have discussions earlier to try and find other options to tuition fee increases so that the best choice can be made.

Trustee Mendoza stated that he is in favor of the increase but at some point we need to think about other alternatives.

Trustee Hauck stressed the bright side of the situation in that we are not laying off or planning to lay off staff and faculty during this period. He expressed that it is remarkable what the management of the university has been able to achieve in light of the magnitude of the cuts CSU has had to sustain.

California State University Doctor of Nursing Practice Tuition Fee

Dr. Quillian stated that this tuition fee will support curriculum development and delivery, faculty resources, highly specialized faculty, doctoral advising and mentoring, program administration, facilities, library resources and other provisions necessary to carry out professional mandates and meet national accreditation standards. The tuition fee recommended is \$6,552 per term for the five-term program with 20% to be set aside for financial aid. Dr. Quillian asked for approval of the recommended resolution.

With no questions, Trustee Hauck called for a motion on the resolution (RFIN 07-11-08), which was approved.

California State University Doctor of Physical Therapy Tuition Fee

Dr. Quillian stated that this tuition fee will support curriculum development and delivery, faculty resources and the other issues related to this doctoral program. The recommended tuition fee for 2012-2013 for the CSU DPT Program is \$8,074 per term for the five-term program with 33.3% to be set aside for financial aid. Dr. Quillian asked for approval of the recommended resolution.

With no questions, Trustee Hauck called for a motion on the resolution (RFIN 07-11-09), which was approved.

Chancellor Reed added that the CSU has not had the authority to award professional doctorates and the board had just taken the necessary steps to put into place two programs. There is a significant need for physical therapists throughout the workforce and that the CSU will be able to assist with that demand.

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

George Ashkar, assistant vice chancellor for financial services, asked for approval from the Trustees to issue systemwide revenue bonds and related debt instruments for the San Diego State Aztec Center Student Union and the Fresno Association, Inc. Student Housing and Auxiliary Refunding. The amount is not to exceed \$111,950,000 for these two projects.

Mr. Ashkar noted for the San Diego Aztec Center Student Union, the not-to-exceed amount of the proposed bond is \$105,125,000, which is based on the total project cost of \$102,404,000. With the new project, the campus overall net revenue debt service coverage for the first full year of operation is projected to be \$1.54 which exceeds the CSU benchmark of \$1.35.

Mr. Ashkar also noted for the Fresno Association, Inc., the not-to-exceed par amount of the proposed refunding is \$6,825,000 and is estimated to generate a net present value savings of

approximately \$540,000 or 7.4% of the refunded bonds. There is an auxiliary resolution pledging the revenues available for the full repayment of the debt and that was dated June 30, 2011.

With no questions, Trustee Hauck called for a motion on the resolution (RFIN 07-11-10), which was approved.

Trustee Hauck adjourned the committee.

COMMITTEE ON FINANCE

Report on the 2011-2012 Support Budget

Presentation By

Benjamin F. Quillian
Executive Vice Chancellor and
Chief Financial Officer

Robert Turnage
Assistant Vice Chancellor
Budget

Budget Status

On June 30, Governor Brown signed the 2011-12 budget act, which further reduced state support for the CSU by \$150 million. This means the total reduction in state support is \$650 million, or nearly one-fourth of state support in 2010-11, and reduces state support from roughly \$2.7 billion down to approximately \$2.1 billion. In addition, the enacted budget package includes the possibility of an additional cut of up to \$100 million, to be determined by the Director of the Department of Finance in December 2011 based on whether, and to what extent, state revenues fall short of budget act assumptions. If the full “trigger” reduction takes place, the one-year loss of state support would be 27 percent, and total state support to the CSU would be at its lowest point since 1997, despite inflation and despite the fact that the CSU is serving about 90,000 more students.

Summary

At the September meeting, the board will be provided with an update of developments regarding the 2011-12 support budget.

COMMITTEE ON FINANCE

Planning for the 2012-2013 Support Budget

Presentation By

Benjamin F. Quillian
Executive Vice Chancellor/CFO

Robert Turnage
Assistant Vice Chancellor
Budget

Summary

As part of the preparation of the CSU support budget for 2012-13, the Board of Trustees will be provided with an overview of the state's fiscal condition and budget challenges for the upcoming fiscal year. The board will be presented with preliminary assumptions for purposes of crafting a budget request that will come back to the board for review and approval in November.

2012-13 State Budget Overview

The State Constitution requires the submittal of the Governor's budget proposal each year by January 10, and in order to meet the consequent deadlines for the submittal of budget requests to the Department of Finance, it is necessary to commence planning for the requested CSU 2012-13 support budget.

The fiscal challenges of the state may remain severe in 2012-13. National and state economic recovery remain weak and many economists are warning of the possibility of a "double dip" recession.

2012-13 CSU Support Budget—Preliminary Planning Approach

Despite the state's fiscal condition, the CSU has legitimate funding needs in order to carry out its critically important missions for California. In this agenda item we share with the board a preliminary plan for the crafting of a support budget request for 2012-13 for the university. The planning approach is tempered by a recognition of the state's ongoing fiscal challenge, yet represents a credible statement of the university's key funding needs.

Planning Framework. The recommended planning framework is summarized as follows. These recommended items will require new ongoing revenues. (This framework assumes that any trigger cut that may occur in the 2011-12 fiscal year will be one-time and not affect the ongoing support budget base.) Dollar amounts are preliminary and approximate.:

- | | |
|---|---------------|
| • Enrollment growth (5 percent) | \$100 million |
| • Mandatory costs (health and dental benefits, new space, energy) | \$50 million |
| • Compensation increase (3 percent “pool”) | \$95 million |
| • Graduation Initiative/Student Success | \$40 million |
| • Urgent maintenance needs | \$15 million |
| • Information technology infrastructure upgrade/renewal | \$15 million |

Total ongoing revenue increase	\$315 million
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Estimated amounts for each item on the list may be revised, based on updated information, in the course of preparing the budget for the board’s review and approval in November.

Conclusion

This is an information item, presenting a preliminary framework for the 2012-13 support budget request, and the board will be presented with an updated and detailed budget recommendation in November as an action item.

COMMITTEE ON FINANCE

2012-2013 Lottery Revenue Budget

Presentation By

Robert Turnage
Assistant Vice Chancellor
Budget

Summary

The lottery revenue budget proposal for fiscal year 2012-13 is presented as an information item. The lottery revenue projection for 2012-13 is \$42 million. After setting aside \$3 million for CSU's systemwide reserve, \$39 million is available for allocation. AB 142 was enacted in April 2010 with the intent to keep state lottery allocations to higher education constant or higher with each subsequent year. However, partly because quarterly lottery revenue receipts have been declining and principally because lottery revenues allotted to CSU are based on enrollment actuals from the prior year – which in recent years have shown the necessary managed decline due to budget reductions, the actual amount of lottery revenue that will be allocated to CSU in 2012-13 is uncertain. Therefore, the 2012-13 Lottery Revenue Budget request does not reflect an increase in projected support from fiscal year 2011-12.

Beginning CSU lottery reserves are \$3 million. CSU does not anticipate any additional carry forward funds in 2012-13 above the planned \$3 million budget reserve. The \$3 million beginning reserve is used to assist with cash-flow variations due to fluctuations in quarterly lottery receipts and other economic uncertainties. Campuses' interest earnings from lottery allocations are incorporated in the total revenue earnings achieved under the CSU Revenue Management Program.

2012-13 Lottery Budget Proposal

After setting aside the \$3 million beginning reserve, the \$39 million 2012-13 lottery budget proposal continues to be designated for campus based programs and the three system-designated programs that have traditionally received annual lottery funding support: Chancellor's Doctoral Incentive Program, California Pre-Doctoral Program, and CSU Summer Arts Program. Of this amount, \$3.9 million funds: the Chancellor's Doctoral Incentive Program (\$2 million) for financial assistance to graduate students to complete doctoral study in selected disciplines of particular interest and relevance to the CSU; the California Pre-Doctoral Program (\$714,000) to support CSU students who aspire to earn doctoral degrees and who have experienced economic and educational disadvantages; and, the CSU Summer Arts Program (\$1.2 million) for academic credit courses in the visual, performing, and literary arts.

The remaining \$35.1 million in 2012-13 lottery funds will continue to be used for campus based programs (\$34.6 million) and system program administration (\$503,000). The campus based programs represent a significant source of funds that allow presidents maximum flexibility in meeting unique campus needs. Traditionally, projects receiving campus based funds have included the purchase of new instructional equipment, equipment replacement, curriculum development, and scholarships. Beginning with the 2012-13 fiscal year, a portion of campus-based program allocations will be used to support student financial aid for the trustee-approved Early Start program. These funds will be used to allow student enrollment in the Early Start summer curriculum regardless of financial need. Campuses will receive funding based on actual student enrollment following the end of the summer program.

In the 2010-11 and 2011-12 fiscal years, \$2 million was taken from systemwide lottery reserves and given to the campuses for improvement in campus academic programs. Due to current fiscal exigencies resulting from state budget reductions, continuing to provide this additional \$2 million to the campuses would have to be contingent on unplanned carryforward balances that might occur at the end of the 2011-12 fiscal year, or funded through a reduction in one of the designated programs noted above.

In fiscal year 2010-11, eighty-seven percent of lottery allocations were spent on supplemental programs and services for students and faculty (Academic, Student Services, Library Services, and Financial Aid). The following table summarizes how lottery funds allocated for the 2010-11 fiscal year were expended.

2010-11 Lottery Expenditure Report		
Program Support Area	Expenditures	Expenditures
Academic	\$ 30,479,943	71.8%
Student Services	\$ 4,104,437	9.7%
Community Relations	\$ 3,240,939	7.6%
Administrative	\$ 1,974,814	4.7%
Library Services	\$ 1,227,016	2.9%
Financial Aid	\$ 1,028,444	2.4%
Classroom Maintenance	\$ 374,882	0.9%
Total Expenditures	\$ 42,430,475	100.0%

The CSU lottery revenue budget proposed for 2012-13 is as follows:

2012-13 Proposed Lottery Revenue Budget

	2011-12 Adopted Budget	2012-13 Proposed Budget
Sources of Funds		
Beginning Reserve	\$ 5,000,000 *	\$ 3,000,000
Receipts	39,000,000	39,000,000
Total Revenues	\$ 44,000,000	\$ 42,000,000
<i>Less Systemwide Reserve</i>	<i>(3,000,000)</i>	<i>(3,000,000)</i>
Total Available for Allocation	\$ 41,000,000	\$ 39,000,000
Uses of Funds		
<i>System Programs</i>		
Academic Program Support	\$ 2,000,000	\$ - **
Chancellor's Doctoral Incentive Program	2,000,000	2,000,000
California Pre-Doctoral Program	714,000	714,000
CSU Summer Arts Program	1,200,000	1,200,000
Program Administration	491,000	502,500
	\$ 6,405,000	\$ 4,416,500
<i>Campus Based Programs</i>		
Campus Programs	\$ 34,595,000	\$ 29,583,500
Campus Early Start Financial Aid	\$ -	\$ 5,000,000
	\$ 34,595,000	\$ 34,583,500
Total Uses of Funds	\$ 41,000,000	\$ 39,000,000

* Includes \$2 million year-end carry-over receipts from 2010-11.

** This program was funded in 2011-12 by reducing one-time lottery beginning reserves.

This item is for information only and an action item will be presented at the November 2011 meeting to adopt the 2012-13 lottery revenue budget.

COMMITTEE ON FINANCE

California State University Annual Investment Report

Presentation By

George V. Ashkar
Assistant Vice Chancellor
Financial Services

Summary

This item provides the annual investment report for fiscal year 2010-11 for funds managed under the California State University Investment policy.

Background

The bulk of CSU funds are invested through the CSU Systemwide Investment Fund-Trust (SWIFT), which was established in July 2007 for the purpose of enhancing centralized cash and investment management. On a daily basis, net investable cash, from Chancellor's Office and campus-controlled bank depository and disbursement accounts, is pooled and moved into SWIFT for investment. All SWIFT cash and securities are held by US Bank, the custodian bank for SWIFT. For investment management purposes, the SWIFT portfolio is divided equally between two investment management firms, US Bancorp Asset Management (previously known as FAF Advisors) and Wells Capital Management.

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, or funds held by the state on behalf of state agencies, in a short-term pool. 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 A.

In July 2011, the state legislature created a new investment vehicle at the state level in which the CSU may invest funds. Senate Bill 79 created the State Agency Investment Fund (SAIF), under new Government Code section 16330, which allows state agencies to invest a minimum of \$500 million and earn a higher rate of return than other investment options at the state level. Pursuant to a memorandum of understanding between the CSU and the Department of Finance, the CSU will deposit \$700 million in the SAIF from late September 2011 through April 2013 at an annual rate of 2.0%. Modifications to the board's investment policy that incorporate this new investment option will be presented for action in a separate item.

The California State University Investment Policy in effect during fiscal year 2010-11 is included as Attachment B.

Market Summary

The fiscal year ended June 30, 2011 was marked by an economic recovery hampered by numerous factors, including the ongoing housing slump, stagnant unemployment rates, the continuing European Union bank and sovereign funding crisis, rising oil and gas prices, the earthquake and resulting tsunami in Japan, problems related to the stressed financial condition of state and local governments, and the possibility of a double-dip recession. The economy grew in the fiscal year with GDP increasing by 1.6%. In the last quarter of the fiscal year, the economy grew at an annualized rate of 1.3% with the unemployment rate increasing to 9.2% from 8.8%. Credit spreads widened in June 2011 on concerns over a global economic slowdown and European debt and as a result, corporate debt underperformed Treasury debt for the month. Fiscal policy has been dominated by the recent U.S. debt ceiling negotiations in Congress. Notwithstanding the recent agreement to increase the debt ceiling, future federal government expenditures will be lowered, creating a fiscal policy drag on the economy.

In response to the ongoing difficult environment, the Federal Reserve (Fed) continues to be accommodating, notwithstanding concerns about inflation, and has left the federal funds rate target unchanged at the 0.0% to 0.25% range, indicating that the rate may stay exceptionally low for an extended period. During the last quarter of the fiscal year, the financial markets focus changed from conversations about the potential implications of the pending completion of the Fed's Quantitative Easing program (QE2) ending on June 30 to a debate for the need of an additional round of quantitative easing by the Fed.

Investment Account Performance

As of June 30, 2011, the asset balance in the SWIFT portfolio totaled \$2.3 billion. The objective of SWIFT is to maximize current income while preserving and prioritizing asset safety and liquidity. Consistent with the CSU investment policy and state law, the portfolio is restricted to high quality, fixed income securities.

As of June 30, 2011, the SWIFT portfolio's holdings by asset type were as follows:

**California State University Systemwide Investment Fund-Trust
 Asset Breakdown as of
 June 30, 2011**

Cash	0.21%
US Treasuries	13.39%
US Government Agencies	31.68%
FDIC Guaranteed	9.03%
Corporate Securities—Long Term	24.04%
Corporate Securities—Short Term	<u>21.66%</u>
	100.00%

The SWIFT portfolio provided a return of 0.56% during the 12 months ended June 30, 2011. This return was less than the benchmark for the portfolio, which is a treasury based index and benefited from the flight to quality during certain periods of the year. Additionally, because of budget uncertainty at the state level and the possibility that the CSU might need to use its own funds to meet operating requirements during a prolonged budget impasse, the SWIFT portfolio strategy had been defensive throughout a significant portion of the year, emphasizing high liquidity and resulting in a much shorter maturity profile with lower returns.

The SWIFT portfolio’s benchmark, the Merrill Lynch 0-3 Year Treasury Index, has been reviewed to determine if a more appropriate benchmark might be used for measuring the SWIFT portfolio’s performance. Because of the volatility of the financial markets and the decision to keep the SWIFT portfolio defensive, conditions which are viewed as temporary, the decision has been made to keep the existing benchmark in place, but continue monitoring the appropriateness of the benchmark relative to the SWIFT portfolio’s structure and investment strategy.

	<u>SWIFT Portfolio</u>	<u>SWIFT Benchmark¹</u>	<u>LAIF</u>
1 Month Return	0.02%	0.03%	N/A
3 Month Return	0.37%	0.61%	0.12%
12 Month Return	0.56%	1.06%	0.49%
Annualized Return since SWIFT Inception	2.08%	3.19%	1.91%

(1) Merrill Lynch 0-3 Year Treasury Index

Surplus Money Investment Fund (SMIF)

The Surplus Money Investment Fund (SMIF) is a vehicle used and managed by the State Treasurer to invest State funds, or funds held by the State on behalf of State agencies, in a short-term pool. Cash in this account is available on a daily basis. 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, 2011, the amount of CSU funds invested in SMIF was approximately \$381 million.

**SMIF Performance Report
 Apportionment Annualized Return**

**SMIF Past Performance
 Quarterly Apportionment Yield Rate
 2002-2011**

FYE 06/30/11	0.49%	Average	2.60%
FYE 06/30/10	0.65%	High	5.73%
		Low	0.46%

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, 2011, there were no CSU funds invested in LAIF.

**LAIF Performance Report
 Apportionment Annualized Return**

**LAIF Past Performance
 Quarterly Apportionment Yield Rate
 2002-2011**

FYE 06/30/11	0.49%	Average	2.59%
FYE 06/30/10	0.66%	High	5.33%
		Low	0.47%

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 (CSU) 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)

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) Federal 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; and
 - Bonds, notes or debentures issued by U.S. corporations rated within the top three ratings of a nationally recognized rating service.
- B. 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 reverse repurchase agreements to unencumbered securities already held in the 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)

COMMITTEE ON FINANCE

California State University Investment Policy

Presentation By

Benjamin F. Quillian
Executive Vice Chancellor and
Chief Financial Officer

Summary

This item requests the board to approve changes to the California State University Investment Policy in order to be consistent with recent changes in investment options authorized by Government Code.

Background

The California State University Investment Policy (Investment Policy) provides that the university may invest funds in investment options authorized by Government Code, and includes a list of such options in Section A of the Investment Policy. Recently, there have been changes in the options authorized by Government Code. These changes are: (1) the State Agency Investment Fund (SAIF) created by the state legislature in July 2011 under new Government Code section 16330, which allows state agencies to invest a minimum of \$500 million and earn a higher rate of return than other investment options at the state level; and (2) the addition of State of California notes and warrants. A revised Investment Policy, which reflects these changes indicated in underline, is presented as Attachment A.

In order to be consistent with recent changes in investment options authorized by Government Code, staff recommends that the Investment Policy be updated. Concurrent with this proposed action, staff also recommends that the board reaffirm its directives to the Chancellor regarding the investment of CSU funds.

RESOLVED, By the Board of Trustees of the California State University, that the California State University Investment Policy, as amended in Attachment A, of Agenda Item 5 at the September 20-21, 2011 meeting of the Committee on Finance, is approved; and, be it further

RESOLVED, that the chancellor, when investing funds, shall safeguard the principal through sufficient number and diversity of investments, provide adequate liquidity to meet normal cash needs and anticipate extraordinary cash demand, and maintain a consistent rate of return representative of current market yield direction; and, be it further

RESOLVED, that the chancellor shall establish and maintain, on behalf of the campuses, investment pools to invest available funds held by the California State University under the jurisdiction of the board.

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 (CSU) 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 Sections 16330 and 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)
- State Agency Investment Fund (SAIF)

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; and
- Bonds, notes or obligations with principal and interest guaranteed by a federal agency

of the United States; and

- Bonds or warrants of any county, city, water district, utility district or school district; and
 - California State bonds, notes, or warrants, or bonds, notes, or warrants with principal and interest guaranteed by the full faith and credit of the State of California; and
 - Various debt instruments issued by: (1) federal land banks, (2) Central Bank for Cooperatives, (3) Federal Home Loan Bank Bd., (4) Federal National Mortgage Association, (5) Federal Home Loan Mortgage Corporation, and (6) Tennessee Valley Authority; and
 - 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; and
 - Bankers’ acceptances eligible for purchase by the Federal Reserve System; and
 - Certificates of deposit (insured by FDIC, FSLIC or appropriately collateralized); and
 - 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; and
 - Loans and obligations guaranteed by the United States Small Business Administration or the United States Farmers Home Administration; and
 - Student loan notes insured by the Guaranteed Student Loan Program; and
 - Debt issued, assumed, or guaranteed by the Inter-American Development Bank, Asian Development Bank or Puerto Rican Development Bank; and
 - Bonds, notes or debentures issued by U.S. corporations rated within the top three ratings of a nationally recognized rating service.
- B. 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; and
- Limits reverse repurchase agreements to unencumbered securities already held in the 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; and
 - 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

California Polytechnic State University Cal Poly Housing Corporation- Auxiliary Organization Dissolution Approval

Presentation By

Benjamin F. Quillian
Executive Vice Chancellor and
Chief Financial Officer

Jeffrey D. Armstrong
President
California Polytechnic State University, San Luis Obispo

Formation and History

Cal Poly Housing Corporation (CPHC) was incorporated on June 5, 2001, as an auxiliary organization of California Polytechnic State University, San Luis Obispo (University). CPHC is authorized in the operating agreement between the Trustees and CPHC to develop and manage faculty and staff housing programs and related activities, including:

1. Acquisition and development of real property and housing for students, faculty and staff, and;
2. Gifts, bequests, endowments, trusts, and related gift management.

In 2000, the University President asked the Cal Poly Corporation (CPC, then known as the California Polytechnic State University Foundation), a recognized auxiliary organization to establish and finance the startup of an auxiliary organization to develop faculty and staff housing for University. In April 2005, CPHC entered into a 99-year ground lease with University allowing for the development of Bella Montaña condominiums, a 69-unit faculty and staff for-sale housing development. Bella Montaña opened in fall 2006, and is 84% sold. The Homeowners' Association hired a professional management company to handle the day-to-day management of Bella Montaña. With the severe downturn in the housing market, CPHC is renting 14% of the units to faculty and staff with CPC providing the property management services to CPHC. CPHC has one unit available for sale.

Reason for Dissolution

CPHC has no employees, and all administrative services are provided through agreement with CPC. The costs of operating CPHC include an annual financial statement audit and tax returns, dues, insurance, and a variety of administrative costs such as quarterly board meetings and compliance audits. Dissolution of CPHC will reduce expenses by approximately \$25,000 annually. CPC provides an operating line of credit to fund CPHC operating expenses. All the outstanding liabilities of CPHC are payable to CPC. Dissolution of CPHC and consolidation with CPC will improve the cost efficiency of campus auxiliary organizations and fewer auxiliary organizations will facilitate University oversight and compliance.

Assignment of CPHC's Assets and Liabilities

At the March 28, 2011 meeting, the CPHC Board of Directors approved a resolution authorizing and directing the winding up and dissolution of Cal Poly Housing Corporation and the transfer of CPHC assets and liabilities to the Cal Poly Corporation. As of June 30, 2011, CPHC total liabilities of \$2,742,000 exceeded total assets of \$2,231,000 by \$511,000. At the April 29, 2011 meeting, the CPC Board of Directors approved a resolution "Authorizing the Acceptance of Assets and Liabilities from Cal Poly Housing Corporation."

CPC was incorporated in 1941 and has been the sole commercial services auxiliary serving California Polytechnic State University. CPC is an auxiliary organization in good standing with net assets of \$68,904,000 as of June 30, 2011. One of the authorized functions under the CPC operating agreement with the Trustees is the "acquisition and development of real property." This enables CPC to accept the assignment of CPHC leases for the Bella Montaña property and manage any future development. The University will review and update the operating agreements with CPC, as needed.

CPC is the only major creditor of CPHC and CPC has the fiscal resources to properly assume and perform CPHC's functions. In light of the difficult fiscal environment and opportunity to reduce costs and improve efficiencies, it is requested that the Board of Trustees of the California State University approve the dissolution of Cal Poly Housing Corporation and the transfer of its assets and liabilities to Cal Poly Corporation.

RESOLVED, that the Board of Trustees of the California State University approve the dissolution of the auxiliary organization known as the Cal Poly Housing Corporation at California Polytechnic State University, San Luis Obispo and the transfer of all assets to the auxiliary organization known as the Cal Poly Corporation at California Polytechnic State University, San Luis Obispo.

COMMITTEE ON FINANCE

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

Presentation By

George V. Ashkar
Assistant Vice Chancellor
Financial Services

Summary

This item requests the Board to authorize the issuance of Systemwide Revenue Bonds and the issuance of Bond Anticipation Notes (BANS) to support interim financing under the commercial paper program of the California State University in an aggregate not-to-exceed amount of \$61,290,000 to provide financing for a campus project. The board is being asked to approve resolutions related to the project. The long-term bonds 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 Revenue Bonds.

The project is as follows:

Sonoma University Center

In May 2008, the board approved the amendment of the non-state capital outlay program and schematics for the Sonoma University Center project. The project is considered the second phase of a campus plan to create a new center for campus life, supplementing the activities of the recently completed recreation center. The project will include: campus dining services, including residential dining and dining venues for all members of the campus community; a new bookstore; a ballroom with seating for over 1,000 people; meeting rooms; and a main lounge. The project is expected to directly benefit several campus programs, including the student housing program, by providing new programming space and improved dining facilities. Accordingly, the campus will bring together several campus partners to financially support the project, including the Sonoma State Housing program, Associated Students, Inc., Sonoma Student Union Corporation, and Sonoma State Enterprises, Inc. (The latter two entities are recognized auxiliaries in good standing.) The entities are primarily supported by student fees and revenue generated by their programs. In April 2011, a successful student referendum was passed that approved an increase of \$150 to the campus' existing student union fee, resulting in a total fee of \$344 commencing in fiscal year 2012-13. While this increase in the student union fee will be applied as a primary source of debt repayment, the campus housing program will have

primary responsibility for the project and administer appropriate agreements and MOU's to ensure appropriate reimbursement by other campus programs for their use of the project.

The not-to-exceed par value of the proposed bonds is \$61,290,000 and is based on an estimated total project cost of \$62,000,000 with program reserve contributions of \$8.97 million. Additional net financing costs (estimated at \$8.26 million) are to be funded from the bond proceeds. The campus received good construction bids in August 2011. The campus anticipates a construction start of October 2011 with construction completion in July 2013.

The following table summarizes key information about this financing transaction.

Not-to-exceed amount	\$61,290,000
Amortization	Approximately level over 30 years
Projected maximum annual debt service	\$4,288,155
Projected debt service coverage including the new project:	
Net revenue – All Sonoma pledged revenue programs: ¹	1.26
Net revenue – Projected for the campus housing program ² :	1.20

1. Combines 2010-11 information for all campus pledged revenue programs and projected 2014-15 operations of the project with expected full debt service.
2. The housing program will have primary responsibility for the project and its administration.

The not-to-exceed amount for the project, the maximum annual debt service, and the ratios above are based on an all-in interest cost of 5.89%, reflective of adjusted market conditions plus 100 basis points as a cushion 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 financial plan projects a program net revenue debt service coverage of 1.20 in the first full year of operations in 2014-15, which exceeds the CSU benchmark of 1.10. When combining the project with 2010-11 information for all campus pledged revenue programs, the campus' overall net revenue debt service coverage for the first full year of operations is projected to be 1.26, which is below the CSU benchmark of 1.35. However, on a forecasted basis, all campus pledged revenue programs are expected to improve, and the campus will meet the 1.35 campus benchmark in 2014-15, with improving coverages thereafter due to reduced expenditures in the Continuing Education program. The campus forecasts also have taken into account expected enrollment targets in the current budget environment.

Trustee Resolutions and Recommended Action

Orrick, Herrington & Sutcliffe LLP, as bond counsel, is preparing resolutions to be presented at this meeting for the project described in this agenda item that authorize interim and permanent financing. The proposed 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 a not-to-exceed amount of \$61,290,000 and certain actions relating thereto.
2. Provide a delegation to the Chancellor; the Executive Vice Chancellor and Chief Financial Officer; the Assistant Vice Chancellor, Financial Services; and the Senior Director, Financing and Treasury; 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 of the financing resolutions for the project as described in this Agenda Item 6 of the Committee on Finance at the September 20-21, 2011, meeting of the CSU Board of Trustees is recommended for:

Sonoma University Center