AGENDA

COMMITTEE ON FINANCE

Meeting: **1:30 p.m., Tuesday, July 23, 2013**
Glenn S. Dumke Auditorium

William Hauck, Chair
Roberta Achtenberg, Vice Chair
Rebecca D. Eisen
Douglas Faigin
Margaret Fortune
Steven M. Glazer
Henry Mendoza
Lou Monville

Consent Items

Approval of Minutes of Meeting of May 21, 2013

Discussion Items

1. Report on the 2013-2014 Support Budget and Multi-Year Funding/Performance Plan**,** *Information*
2. Report on the Refinancing of California State University Debt, *Information*
3. Approval to Issue Trustees of the California State University, Systemwide Revenue Bonds and Related Debt Instruments for an Auxiliary Project, *Action*
4. Granada State University House –Funding Plan, *Information*

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

May 21, 2013

Members Present

William Hauck, Chair
Roberta Achtenberg, Vice Chair
Rebecca D. Eisen
Douglas Faigin
Margaret Fortune
Steven M. Glazer
Lou Monville, Acting Chair of the Board
Ian Ruddell
Timothy P. White, Chancellor

Approval of Minutes

The minutes of March 19, 2013 were approved by consent as submitted.

Report on the 2013-2014 Support Budget and Multi-year Funding/Performance Plan

Dr. Benjamin F. Quillian, executive vice chancellor and chief financial officer, commented that the $125.1 million programmatic increase to the CSU from the state general fund remains in place. He also updated the board on the Governor's May budget revision and changes affecting the CSU and the Administration's multi-year funding/performance plan. The budget revision addresses accountability, emphasizes student success and increased access to technology-enhanced courses.

The committee discussed the Governor's May budget revision and the multi-year funding/performance plan presented in Finance Committee agenda Item No. 1 of May 2013, which included the following components:

- Legislative budget subcommittee hearings were held and focused on policy changes contained in the proposed budget bill or budget trailer bill language rather than on the proposed appropriation amounts.

- The Governor's proposal to merge CSU and UC support and capital outlay budgets into the same appropriation and to make future debt service on state bonds payable from the university appropriations.

- Additional state revenues that would be claimed by Proposition 98, the state's constitutional spending guarantee for K-12 schools and community colleges which could eliminate potential state appropriation increases for the CSU.

- The initial long-term funding and performance plan released by the Department of Finance to the budget subcommittees. The multi-year funding plan ties the year-by-year appropriation increases of 5%, 5%, 4% and 4%, to the attainment of a 10% systemwide improvement in each of seven specified outcome measures by 2016-2017 and are contingent on a tuition fee freeze for the entire period. The Chancellor and staff have had discussions with the Department of Finance assuring that an adopted funding/performance plan incorporates measures and targeted rates of improvement appropriate to the CSU mission and to match ambitious performance goals with resources.

- Forecasted economic growth and estimated revenues for 2013-2014.

Public Speakers

The committee heard from the following individuals: Matt Walsh, student, California State University, San Marcos, commented on the May revision and stressed the importance of ensuring student voices are heard and that student priorities are considered; Sarah Couch, student, California State University, Sacramento, stated that the students are excited to work with the governor to address their concerns, as they have done previously on other issues; David Ashley, student, California State University, Channel Islands, shared his concern on the four-year graduation rate for freshmen and the proposed performance initiatives.

Granada State University House – Major Repairs and Funding Plan

Dr. Quillian, reported that the Granada State University House is in dire need of repairs and requests board approval to rescind the existing spending rules adopted in 2000 by resolution of the board (RFIN 07-09-00).

In January 2013, after heavy rain storms, the roof of the residence was damaged and began leaking into the house. It was determined that immediate repairs were necessary to avoid more extensive damage. Estimates were competitive and the roof damage was repaired. Prior to the repair, A Facility Condition Assessment was conducted on March 12, 2013, by ISES Corporation to assess the need to repair or replace the roof as well as multiple hazards in and around the home and details necessary maintenance over 10 years to bring the house to a reasonable living standard and to protect the value of the house.

There is a restricted endowment, managed through a trust account established in 1991 that is used for the repair and maintenance of the house. This account is required to stay in the fixed income area by state code and cannot be invested in equities. To help offset the impact of these expenses on the endowment corpus, the CSU is recommending moving the endowment from the CSU to the CSU Foundation, which is an approved systemwide auxiliary in good standing, that has the ability to invest in equity securities and is able earn a higher long-range total average annual return on the endowment.

Mr. George Ashkar, assistant vice chancellor for financial services will provide the board in July with a hypothesis performance report and projections going out until when they anticipate returns will start rebuilding the endowment.

Trustee Hauck requested to amend the last two sentences of the resolution to replace the word "board" with "board of trustees" so that it is explicitly clear that the approval of the annual operating budget is done by the chair of the board of trustees.

The committee recommended approval by the board of the proposed resolution (RFIN 05-13-03).

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

Mr. George Ashkar, assistant vice chancellor for financial services, requested board approval to authorize the issuance of systemwide revenue bonds of the California State University in an aggregate amount not-to-exceed $3,140,000 to provide funds for the California State University, East Bay Foundation, Inc. (the "Foundation) -- Campus Bookstore refunding. The project will be the current refunding of $3,470,000 in outstanding principal on the Foundation's Auxiliary Organization Refunding Revenue Bonds, Series 1998, which refunded the original series 1994 bonds. The loan agreement for the refunding of the stand-alone auxiliary organization bonds will be secured by a general obligation pledge of the Foundation's unrestricted revenues which is estimated to generate a net savings of $548,370 or 15.8% of the refunded bonds. This refunding will have minimal impact on systemwide debt capacity. The board is being asked to approve resolutions relating to this refunding.

Trustee Eisen requested clarification on the definition of refunding. Mr. Ashkar clarified that it is the reissuing of a bond at a lower interest rate.

Trustee Glazer inquired about the monitoring of opportunities for refunding and if there were other outstanding bonds that could qualify for a refund. Mr. Robert Eaton, senior director for financing and treasury, responded that the CSU monitors all auxiliary bonds on a regular basis and when interest rates drop, the campus or auxiliary involved is advised and a decision is made as to whether or not a refund should occur. Some bonds cannot be refunded due to IRS regulation and certain types of refunds can only be done once in the life of the bond. The CSU is monitoring outstanding bonds that still qualify for a refund. Trustee Hauck suggested presenting an annual summary report to the board highlighting savings achieved.

The committee recommended approval by the board of the proposed resolution (RFIN 05-13-04).

Trustee Hauck adjourned the Committee on Finance.

COMMITTEE ON FINANCE

Report on the 2013-2014 Support Budget and Multi-Year Funding/Performance Plan

Presentation By

Benjamin F. Quillian
Executive Vice Chancellor and
Chief Financial Officer

Robert Turnage
Assistant Vice Chancellor
Budget

Background

The Governor signed the 2013-2014 Budget Act on June 27, 2013. The enacted state budget estimated $96.3 billion in General Fund revenues. In terms of appropriations for the CSU, the enacted budget is consistent with the Governor's proposal released last January. It provides a programmatic increase of $125.1 million from the state General Fund for support of the CSU, bringing state support for the CSU to $2.3 billion. The enacted budget is also consistent with the following spending plan tied to that amount that was reviewed and discussed at the March 19-20, 2013 meeting of the Board of Trustees:

- $48.2 million for mandatory cost increases (health benefits, new space, and energy);
- $38.0 million for a compensation increase "pool";
- $21.7 million for enrollment growth (4,794 full-time equivalent students [FTES] or about 6,000 individuals);
- $10.0 million to address course "bottlenecks" through innovative use of technology and online courses.
- $7.2 million for various campus efforts in support of the Graduation Initiative and student success.

Legislative Hearings

The budget subcommittees for education finance in the Assembly and the Senate held several hearings this spring on the Governor's higher education budget proposals. Ultimately, the Assembly and Senate budget committees adopted similar higher education budget proposals and the relatively few outstanding issues between the two houses were resolved in the budget conference committee. The Assembly and Senate passed the Budget Bill on June 14, 2013, meeting the state constitutional deadline for legislative action.

Several issues are worthy of note. Trailer bill language proposed to conform provisions of collective bargaining law for the CSU related to employer/employee shares of health care benefit premiums to the provisions governing this issue for the state Department of Human Resources and state unions was rejected. Subcommittee members acknowledged that the CSU faces extraordinary cost pressures in this area, yet the majority believes the issue should be left to bargaining under current law.

Both subcommittees also rejected the proposal to merge CSU and UC support and capital outlay budgets into the same appropriation, and to make future debt service on state bonds payable from the university appropriations. Ultimately, a form of the proposal was adopted in the enacted budget for the UC, which sees an opportunity to achieve near-term savings on annual debt service by replacing the existing state bonds with its own bonds. For the CSU, the liability and risk of future debt service far outweighed potential savings from a bond "restructure," and the legislature kept in place the existing law under which the state is responsible for debt service.

Anticipating the possibility that the enacted budget might recognize and appropriate substantially more funds than proposed in the Governor's January plan, the CSU, working with student, faculty and staff groups, proposed that the Governor and legislature invest an additional $54 million for enrollment growth at the CSU. This would have brought state-funded enrollment to the level originally approved by the Board of Trustees last November for the 2013-2014 budget request, and would have permitted the admission and enrollment of 15,000 more individual students in the upcoming fall and spring than is possible under the budgetary constraints reviewed by the board last March. However, the proposal ultimately failed to make the enacted budget once the legislature agreed to the Governor's more conservative state revenue estimates.

Multi-year Funding and Performance Plan

As part of his January budget proposal, the Governor called for a stable multi-year funding plan for the university systems under which state General Fund appropriations to the UC would grow in the following year by year sequence—5 percent, 5 percent, 4 percent and 4 percent—and appropriations to the CSU would grow by annual dollar amounts equal to the UC's growth. Under this plan, annual appropriations to each university system would grow by an estimated $511 million by the fourth year (2016-2017). The Governor's Administration indicated that would develop performance expectations tied to the annual funding increases for consideration by the Legislature during budget hearings.

In late April, the Department of Finance released an initial "long term funding and performance plan" to the budget subcommittees. The initial plan tied annual funding increases for each university system to the attainment of specified percentage improvements in seven outcome measures. Ultimately, the universities would be required to improve outcomes by 10 percent on each measure by the 2016-2017 fiscal year (relative to the outcomes attained in the designated base year of 2011-2012).

The initial funding/performance plan generated a wide range of concerns at the budget hearings. In addition, the Chancellor and staff engaged with the Department of Finance in discussions aimed at assuring that any adopted funding/performance plan have measures and targeted rates of improvement that are appropriate to the CSU's mission, the realities faced by many students who work full or part-time or who come to college in need of additional preparation, and the need to match ambitious performance goals with commensurate resources.

Based on these discussions and the discussions in the legislative hearings, the legislature adopted a set of modified outcome measures as part of the higher education budget trailer bill (AB 94, signed by the Governor on July 1, 2013). The enacted legislation requires the UC and CSU to report by March 1 of each year on the following outcome measures for the preceding academic year:

- The number of transfer students enrolled from the California Community Colleges, and the percentage of transfer students as a proportion of total undergraduate enrollment.
- The number of low-income students enrolled, and the percentage of low-income students as a proportion of total enrollment. The legislation defines "low-income" as students receiving a Pell grant during their matriculation at the university.
- The systemwide four-year and six-year graduation rates for each cohort of students entering as freshmen and, separately, for each cohort of low-income students.
- The systemwide two-year and three-year graduation rates for transfer students and, separately, low-income transfer students.
- The number of degree completions, in total and for the following categories:
    - Freshman entrants.
    - Transfer students.
    - Graduate students.
    - Low-income students.
- The "percentage of first-year undergraduates who have earned sufficient course credits by the end of their first year of enrollment to indicate they will complete a degree in four years."
- Total funding (state General Fund plus tuition and other student fee revenues) divided by the number of degrees awarded that year.

- The average number of course credits accumulated by students at the time they complete their degrees, disaggregated by freshman entrants and transfers.
- The number of degree completions in science, technology, engineering and mathematics (STEM) fields, disaggregated by undergraduates, graduate students and low-income students.

The Administration has committed to work with the legislature, the universities and others to develop the further details of a funding/performance plan, including the development of “targets” for the above outcome measures and the definition of fiscal consequences for attainment or non-attainment of specified targets. This work is expected to be the subject of legislation to be considered later in this year’s legislative session.

Middle Class Scholarship Program

The enacted trailer bill also creates a new financial aid program for qualifying UC and CSU undergraduates called the Middle Class Scholarship (MCS). When phased in fully in the 2017-2018 academic year, qualifying students with household incomes of $100,000 or less will be eligible for a grant equal to 40 percent of the tuition fee. This grant percentage is reduced on a sliding scale for qualifying students with household incomes between $100,000 and $150,000. For example, a student with household income of $125,000 would potentially qualify for a 25 percent grant; a student with income just below $150,000 would potentially qualify for a 10 percent grant. In order to qualify, students must file the federal Free Application for Federal Student Aid (FAFSA), make a timely application for other publicly funded aid programs, maintain a 2.0 grade point average, and be exempt from paying non-resident tuition.

The Student Aid Commission, assigned overall administration of the new program, will reduce the MCS grant by the combined amount each student receives from Pell Grant, Cal Grant, State University Grant, and other institutional need-based grants (CSU or campus sources). Almost all CSU undergraduates with household incomes below approximately $70,000 receive a combination of these grants in amounts that would exceed the MCS entitlement. Thus, the MCS would provide a benefit primarily for students with household incomes between approximately $70,000 and $150,000. In order to avoid supplanting those various sources with the state funds intended for the MCS, the enacted trailer bill requires the CSU and UC to maintain funding amounts for its institutional need-based grants at least equal to the amount spent in the 2013-2014 academic year.

The MCS program will be phased in gradually. The 2013-2014 fiscal year will be a planning year that will include the promulgation of regulations by the Student Aid Commission. Students will be eligible for grants starting in the 2014-2015 academic year. Full MCS award amounts, however, would not happen until the 2017-2018 academic year. For the three academic years 2014-2015 through 2016-2017, the maximum amount of a student’s MCS award would be 35 percent, then 50 percent, then 75 percent, respectively, of the total MCS award amount the student would otherwise be eligible to receive.

The MCS entitlement, in effect, reduces the amount of tuition fee that a student must pay and therefore reduces the amount of tuition fee revenue collected by the university. The state makes up the difference by appropriating funds to the Student Aid Commission for the grants. The commission then sends the grant funds to the relevant campus as a reimbursement for the lost tuition fee revenue. There is no net gain to the campus or university and no additional funds are available for program growth or enhancement. The total amount appropriated from the state General Fund to reimburse CSU and UC for lost tuition revenue will be phased in, and capped, as follows:

- $107 million for 2014-15.
- $152 million for 2015-16.
- $228 million for 2016-17.
- $305 million for 2017-18 and each fiscal year thereafter.

The Student Aid Commission must determine each year if the aggregate amount of MCS awards for which students qualify exceeds the capped appropriation. If so, the commission must then reduce each student's award amount proportionately in order to stay within the appropriation. In this respect, the MCS differs fundamentally from the Cal Grant entitlement program, where authority exists to augment annual appropriations as necessary to match demand.

Summary

The Governor signed the 2013-2014 Budget Act on June 27, 2013 and the higher education budget trailer bill on July 1, 2013. In terms of appropriations for the CSU, the enacted budget is consistent with the Governor's proposal released last January. It provides a programmatic increase of $125.1 million from the state General Fund for support of the CSU, bringing state support for the CSU to $2.3 billion out of a $96.3 billion state General Fund budget. The enacted budget is also consistent with the spending plan tied to that amount that was reviewed and discussed at the March 19-20, 2013 meeting of the Board of Trustees. This will start a process of welcome reinvestment in the students, faculty, staff and campuses of the CSU. The enacted budget also contains significant policy changes, including the identification of outcome measures intended to be part of a long-term funding/performance plan and the creation of a new financial aid program, the Middle Class Scholarship.

COMMITTEE ON FINANCE

Report on the Refinancing of California State University Debt

Presentation By

George V. Ashkar
Assistant Vice Chancellor
Financial Services

Robert Eaton
Senior Director
Financing and Treasury

Summary

This item reports on the refinancing of debt under the California State University Systemwide Revenue Bond (SRB) program. In summary, since 2005, $1.1 billion of outstanding stand-alone auxiliary bonds and outstanding SRB debt has been refinanced through the SRB program providing net present value savings totaling $99.7 million. This amount of debt refinancing represents 28 percent of the total $3.6 billion of SRB debt currently outstanding.

Background and Debt Rating Update

The SRB program, under the provisions and authorities of The State University Bond Act of 1947 (Education Code Sections 90010-90081), was established by the board at its March 2002 meeting. At the same meeting, the board also amended the CSU Policy on Financing Activities to recognize the principles that established the basis for the SRB program, established aspects of how auxiliary organization financings would occur in the future as part of the program, and provided the Chancellor with additional authority to establish management procedures to administer the program to ensure that the objectives of the SRB program would be met. The CSU Policy on Financing Activities also provides general guidance on the refinancing of debt, including auxiliary debt, under the SRB program. Pursuant to the authority established in the CSU Policy on Financing Activities, the Chancellor issued Executive Order 994 in October 2006. Executive Order 994, which incorporates the CSU Policy on Financing Activities that was approved by the board in March 2002 (RFIN 03-02-02), is included herein as Attachment A.

The CSU also has a commercial paper (CP) program, which was approved by the Board in January 2001 and established shortly thereafter. The CP program's primary purpose is to provide bridge financing for revenue generating projects of the CSU that ultimately will be financed on a long term basis through the SRB program. CP is also issued for equipment and for select revenue generating projects that are not scheduled for long term financing. The CP is issued through the CSU Institute, an auxiliary of the CSU, and is secured by Bond Anticipation Notes approved and issued by the Board or, in the case of equipment financing, by financing agreements with the CSU. The CP program is supported by a Letter of Credit issued by State Street and JPMorgan at a program size of $200 million, although the Board has authorized a program size up to $500 million. The current Letter of Credit supporting the CP program expires in July 2014, but the plan is to renew the Letter of Credit and continue the CP program.

On June 28, 2013, Standard & Poor's Ratings Services upgraded the debt rating on the SRB program to AA- with a stable outlook. Moody's Investors Service continues to rate the SRB program at Aa2 with a stable outlook.

Auxiliary Bond Refinancing into SRB

Consistent with the CSU Policy on Financing Activities and Executive Order 994, $553.5 million of stand-alone auxiliary bonds have been refinanced into the SRB program since 2005 with net present value savings totaling $36.9 million. While a portion of the savings have been a result of lower overall interest rates in the general market compared to the rates at which the original auxiliary bonds were sold, a portion of the savings have been a result of the structural benefits of the SRB program compared to the auxiliary bond structures. For example, the diversity of the revenues and the gross revenue pledge structure of the SRB program reduce risk, allow for stronger debt ratings, and result in a lower interest rate compared to auxiliary bond structures. Another example, again reflective of risk, is that auxiliary bond structures usually require a debt service reserve, which is funded by bond proceeds. The SRB program does not have a debt service reserve requirement, therefore less debt is issued and less interest is paid compared to an auxiliary bond structure.

Currently, only $49.4 million of stand-alone auxiliary bonds across three auxiliaries remain outstanding. Of these, one auxiliary bond for $3.7 million is scheduled to be refinanced as part of a mid-July SRB sale. The remaining bonds are not currently eligible for refinancing due to regulations governing tax-exempt debt.

Refinancing of Existing SRB Debt

In order to take advantage of the record low interest rates over the past couple of years, the CSU has also refinanced a significant portion of its existing SRB debt portfolio.

In September 2011, the CSU issued $429.9 million of SRB debt, of which $193.1 million was issued to refinance existing Series 2002A and 2003A SRB debt, producing net present value savings of $18.6 million, or 9.2 percent of the prior bonds.

In August 2012, the CSU issued $452.9 million of SRB debt, of which $296.1 million was issued to refinance existing Series 2002A, 2003A, and 2004A SRB debt, producing net present value savings of $44.1 million, or 14.2 percent of the prior bonds.

Current Opportunities to Refinance Existing SRB Debt

All outstanding SRB and remaining stand-alone auxiliary bond debt is monitored regularly for refinancing opportunities. In many cases, regulations governing the issuance of tax-exempt debt limit the ability of the CSU to refinance certain series of outstanding debt. In other cases, the structure of the bonds—for example, the call date at which certain bonds may be paid off in full prior to their stated maturity—may impact the amount of savings that can be generated by a refinancing.

As of the writing of this item, the CSU is in the process of preparing for a mid-July bond sale to refinance certain maturities of the Series 2005A and Series 2005C SRB debt, as well as one stand-alone auxiliary bond as noted above. The amount of SRB debt that may be refinanced and the amount of savings that may be generated are still subject to market conditions. Staff will provide an update on the refinancing of the Series 2005A and Series 2005C SRB debt at the board’s July meeting.

Other series of SRB debt that have not been refinanced or are not being considered for the mid-July bond sale are not eligible for refinancing due to regulations governing tax-exempt debt or because they currently do not provide sufficient net present value savings. These series will continue to be monitored for possible refinancing in the future.

THE CALIFORNIA STATE UNIVERSITY
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SAN MARCOS
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October 23, 2006

MEMORANDUM

TO: CSU Presidents

FROM: Charles B. Reed
Chancellor

Charles B Reed

SUBJECT: Financing and Debt Management Policy — Project Development and the Systemwide Revenue Bond Program Executive Order No 994

Attached is a copy of Executive Order No 994 relating to the CSU's Financing and Debt Management Policy.

In accordance with policy of the California State University, the campus president has the responsibility for implementing executive orders where applicable and for maintaining the campus repository and index for all executive orders.

If you have questions regarding this executive order, please contact Colleen Nickles, Senior Director, Financing & Treasury, at (562) 951-4570 or cnickles@calstate.edu.

CBR/rr

Attachment

cc: Vice Presidents for Business/Administration
Executive Staff, Office of the Chancellor

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THE CALIFORNIA STATE UNIVERSITY
Office of the Chancellor
401 Golden Shore
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Executive Order: 994

Effective Date: October 23, 2006

Supersedes: Executive Order No. 876

Title: Financing and Debt Management Policy — Project Development and the Systemwide Revenue Bond Program

Section 1: General Policies Regarding Financing Activities of the CSU

1.1 Authority: This policy statement provides information and procedures in connection with financing activities of campuses and auxiliary organizations. It is issued pursuant to Standing Orders of the Board of Trustees, Section 2, and the authority delegated to the Chancellor in the Trustees CSU Policy for Financing Activities, (RFIN 03-02-02; see Attachment B).

1.2 General Rule: Use of the capital markets to finance revenue-based, and in some limited cases, non-revenue-based non-state funded capital outlay projects of CSU campuses, auxiliaries, and other affiliated organizations shall be limited to the use of the Chancellor's Office tax-exempt or taxable commercial paper programs and the issuance of notes, bonds and other instruments, as approved by the Trustees, within the CSU Systemwide Revenue Bond Program as described below, hereafter referred to as the SRB Program. Additionally, the tax-exempt or taxable commercial paper program may also be used for the purpose of financing Chancellor's Office, campus, auxiliaries, and other affiliated organizations' personal property needs. The aspects of the Systemwide Revenue Bond Program and this policy are based on the fact that debt management is a dynamic undertaking, that evaluation of debt capacity and credit quality involves many different measures, and that the choice to use the specific criteria and measures in this policy may require change over time.

1.3 Types of Debt: The Trustees have traditionally issued variable-rate, short-term commercial paper for the construction period of a project, and fixed-rate, long-term debt for the permanent financing of a project. With the introduction of the commercial paper program use for personal property financing, the Trustees may not refinance these commercial paper issuances with long-term, fixed-rate debt, and the financed amounts will be amortized while the issuance remains in commercial paper.

Given this change in approach, the Trustees will establish a parameter that not more than 25% of its debt be unhedged variable rate debt, including commercial paper, to be consistent with rating agency expectations and market targets appropriate for the CSU's debt rating.

1.4 Alternative Financing Activities: An alternative financing structure to Section 1.2 above may be utilized if the Chancellor's Office or the campus is able to demonstrate significant benefits and if the Trustees approve the alternative structure. The Chancellor's Office or campus must not only demonstrate benefits for the use of an alternative structure, but must also identify the detailed structure of the proposed financing. In reviewing the proposed structure, the Trustees shall evaluate such things as 1) impacts on the CSU's financial statements, 2) the extent to which the financing will be counted as a use of the Trustees' credit, 3) the relative cost of the proposed financing, 4) the proposed use of financing techniques that involve greater repayment risk than are typically used in the SRB Program, and 5) any other short-term or long-term impacts to the Trustees' credit profile.

Section 2: Definitions

2.1 "Project": Construction of a facility or group of facilities related to the same use and constructed at the same approximate time (example; one or more dormitories constructed with one construction contract). Project may also be defined as personal property with a dollar value greater than $100,000.

2.2 "Stand-Alone Project": For a campus, a Stand-alone Project is a campus self-supporting activity supported by an Established CSU Fee that provides the source for repayment of debt for only one campus-related Project (e.g. the first campus-operated student housing facility). For an auxiliary organization a Stand-alone Project is a single Project operated by the auxiliary that is supported by the project-related revenue, or all of the auxiliary organization's available revenue (e.g. the first auxiliary-operated bookstore facility).

2.3 "Debt Program": For a campus, a Debt Program is a campus self-supporting activity funded by an Established CSU Fee that provides the source for repayment of debt for more than one campus-related Project (e.g. two or more separately financed campus-operated student housing facilities). For an auxiliary organization, a Debt Program is a program operated by the auxiliary that provides the source for repayment of debt for more than one auxiliary-operated Project (e.g. two separately financed auxiliary-operated food service facilities). Note that a general revenue pledge of all available auxiliary organization revenue makes it possible for the entire auxiliary organization program to be classified as a single Debt Program.

2.4 "Established CSU Fees": The following fee categories established in the Education Code have been pledged to the repayment of bonds issued by the SRB Program:

- Parking Fees (Education Code Section 89701)
- Student Body Center Fees (i.e., Student Union Fees) (Education Code Section 89304)
- Rental Housing Fees (Education Code Section 89703)
- Health Center Facility Fees (Education Code Section 89702)
- Continuing Education Revenue Fund Fees (Education Code Section 89704)

2.5 "Net Revenue Debt Service Coverage Ratios" (DSCR): A DSCR consists of annual gross revenue, less annual operating expenses divided by annual debt service. This ratio serves as a benchmark at the systemwide and campus level for decisions about new debt and the management of debt (See Section 4).

2.6 "Operating Expenses": For a Project or Program, Operating Expenses are defined as all costs related to providing a good or service, including regular maintenance charges, expenses of reasonable upkeep, a properly allocated share of charges for insurance, direct or special administrative expenses directly chargeable to the Project or Program, and all other expenses incident to the operation of the Project or Program, but excluding depreciation expense and other non-cash charges, general administrative expenses of the Board or the State, Extraordinary Expenses and Major Maintenance and Repairs, and Debt Service.

2.7 "Extraordinary Expenses and Major Maintenance and Repairs": For a Project or Program, Extraordinary Expenses and Major Maintenance and Repairs will not be included in the DSCR, and the expenses are expected to be paid from Building Maintenance and Equipment Reserves or from Prior Year Fund Balances.

Note: Operating Expenses, as defined in the SRB indenture, include extraordinary repairs in the calculation of debt service coverage; the indenture requires the Board to set rates, charges, and fees for all Projects so that Net Income Available for Debt Service is at least equal to Aggregate Debt Service for all indebtedness. Sections 2.5, 2.6, and 2.7 are intended for internal operations purposes and shall not result in a conflict with indenture requirements. Campuses are expected to monitor their Programs to ensure overall compliance with the indenture requirements for annual DSCR tests.

Section 3: Systemwide Revenue Bond Program (SRB)

3.1 Trustee Approval: Each issuance of debt instruments under the SRB Program shall be approved by the Trustees.

3.2 Gross Revenue Pledge: Bonds issued under the SRB Program are secured by a gross revenue pledge of all Established CSU Fees.

3.2.1 Lawfully available revenue may be pledged from a campus, auxiliary, or other organization through a formal binding agreement if approved by the Trustees.

3.3 Commercial Paper Program: Within the capacity of the CSU Chancellor's Office commercial paper program, each non-state funded capital outlay or personal property project may receive acquisition or construction funding through the issuance of commercial paper.

3.4 Auxiliary Organization Projects: Except as indicated in Section 1.3, Projects of auxiliary or other organizations (special purpose governmental units, such as a joint powers authority) shall be financed through the SRB Program.

3.4.1 Each auxiliary or other organization SRB project financing shall be supported by the execution of a financing lease between the auxiliary organization and the CSU with a legal structure that is permitted by the provisions of the State University Bond Act and the SRB Master Resolution.

3.4.1.1 For auxiliary or other organizations with no existing debt obligations, the lease shall contain provisions that 1) pledge all available corporation revenue to the Trustees for payment of the lease obligations; 2) require deposit of all pledged revenues (i.e., all revenues) into a pledged "gross revenue fund" bank account; 3) establish criteria for issuance of additional bonds; and 4) covenant that the auxiliary or other organization will set rates or otherwise maintain pledged income that will generate the required net revenue (See Section 4.4).

3.4.1.2 For auxiliary or other organizations with existing debt obligations, the lease shall contain provisions that 1) require the corporation to abide by the criteria of existing bonds for the issuance of "parity" debt; 2) establish that Trustees share in pledged revenue with all other bondholders on a parity basis; and 3) require that Trustees receive the same covenants as existing bondholders for the issuance of additional bonds and the same coverage required for a rate covenant for the existing bonds.

3.4.1.3 The financing lease shall be considered parity debt with all other, existing auxiliary or other organization debt.

3.4.1.4 The financing lease payment from the auxiliary or other organization to the CSU shall be calculated to include: 1) debt service associated with the bonds including the cost of participation in the commercial paper program, interest and principal on bonds issued to permanently finance the project and other debt management related costs of the CSU; and 2) any costs incurred by the auxiliary organization's campus for operation and maintenance for the financed facility. (See Executive Order No. 753)

3.4.2 At each campus the aggregate annual direct and indirect debt service for other third-party financings and for auxiliary or other financings that are either part of or separate from the SRB Program is limited to a maximum amount of 25% of the respective allocation of debt capacity to the respective campus (See Section 5).

3.5 Structure and Timing of Bond Transactions: The structure and timing of each issuance of SRB bonds shall be determined by the Chancellor's Office.

3.6 Allocation of Costs: Debt service and other debt management costs shall be allocated to campuses on the basis of a formula determined by the Chancellor's Office.

Section 4: DSCR Benchmarks

4.1 Systemwide (DSCR): For the system, the DSCR is computed using the total of the gross revenue of the Established CSU Fee plus any pledged revenue supporting SRB capital lease payments from auxiliary or other organizations. Operating expenses and debt service for the computation consist of the total operating expenses and debt service relating to these programs. The systemwide DSCR should be maintained at or above 1.45. If the SRB systemwide DSCR falls below 1.45, the campus benchmarks may be changed to strengthen the credit position of the Program. (See also Attachment A)

4.2 Combined Campus and Auxiliary Organizations (DSCR): At the combined campus and auxiliary organization level, the DSCR is similar to the systemwide DSCR test except that the amounts of pledged revenue, operating expenses, and debt service are related to the combined pledged revenues of the campus and auxiliary organizations' Established CSU Fees plus pledged revenue, operating expense and debt service that is related to the specific auxiliary organization Debt Program. The minimum requirement of the DSCR for a Combined Campus and its Auxiliary Organizations is 1.35.

4.3 Campus Debt Program (DSCR): The DSCR for a campus Debt Program must be equal to a minimum of 1.10. The DSCR for a campus Stand-alone Project must be equal to a minimum of 1.10. For these requirements the DSCR is computed from pledged revenue, operating expense and debt service that is related to the specific Debt Program or the Stand-alone Project.

4.4 Auxiliary Organization Project and Debt Program (DSCR): The DSCR for a campus auxiliary organization Debt Program must be equal to a minimum of 1.25. The DSCR for a campus SRB auxiliary organization Stand-alone Project must equal a minimum of 1.25. For these requirements the DSCR is computed from pledged revenue, operating expense and debt service that is related to the specific auxiliary organization Debt Program or the Stand-alone Project.

4.5 DSCR and Effective Year: The chief financial officer of a campus is responsible to implement plans and budgets so that the required DSCRs for campus CSU Established Fee programs and campus auxiliary organizations be supportable and maintained at or above the minimum level for the first operating year, and at or above the minimum for all subsequent years of operation for Stand-alone or Debt Program Projects.

Section 5: Debt Capacity

5.1 General Rule: Financing shall not be recommended by the Chancellor's Office if the issuance of new bonds will cause the total amount of issued and outstanding SRB bonds to exceed the CSU's debt capacity as determined by the Trustees.

5.2 Calculation of the CSU's Debt Capacity: Debt service on all issued and outstanding SRB bonds shall not at any time exceed an amount that would cause the quality of the CSU's credit to fall below a minimum level as determined by the Trustees.

5.3 Allocation of Debt Capacity to Campuses: Capacity, as measured by debt service on campus debt, shall be allocated to CSU campuses as follows:

5.3.1 Campus general allocation: The aggregate debt service related to a campus' individual projects shall not exceed an amount computed from its net unrestricted expenditures times two-thirds (2/3) of the same ratio that the Trustees have recognized as appropriate for the system.

5.3.2 Chancellor's Office special allocation: With concurrence of the Trustees, the Chancellor's Office may allocate portions of up to an additional one-third (1/3) of the CSU's debt service capacity to individual campuses for special priority purposes.

Section 6: General Financial Planning Principles For Projects

6.1 Project Size: The CSU SRB Program is intended to provide a mechanism to finance revenue based, and in some limited cases, non-revenue-based non-state capital outlay projects pursuant to the State University Revenue Bond Act of 1947 and the issuance of debt to the public through a complex legal structure and financial marketing process. As such, the Program is suitable for projects of greater than $3 million, and with a useful life of greater than ten years. For personal property financed through the commercial paper program, financings should be $100,000 to $5,000,000, with a useful life of 1-8 years. See Section 7 for program-related costs that should be funded through a reserve plan rather than through the issuance of debt.

6.2 Allocation of Debt Service: The plan of finance for SRB Projects shall assume level debt service and allocation of long-term debt over 25 or 30 years unless the useful life of the asset financed is less. In some cases, the debt service may be structured to allow for accelerating debt service, bullet repayments of principal, shorter repayment terms, or other special arrangements as determined appropriate for a project. The Trustees will be notified in the Financing item at the time of approval if an alternative debt service repayment schedule will be utilized.

6.3 Timing of Bond Sale: The plan of finance shall assume the sale of long-term debt at the time of initiation of construction (i.e., including capitalized construction period interest) to meet net revenue debt coverage ratio tests.

6.4 Interest Rate Assumptions: The plan of finance for Projects shall incorporate a moderate interest rate contingency for unfavorable changes in interest rates between the time of the initial financial plan and the time long-term bonds will be sold.

6.5 Consistency of Computations: Upon request the Chancellor's Office will provide the debt service information to be used in all financial plans relating to debt issuance in order to ensure that information regarding the debt is consistently prepared.

Section 7: Reserves

7.1 Reserve Development: The campus president and chief financial officer are responsible for developing and maintaining a campus policy to provide reserves from Project revenues for projects funded by debt issued by the Board of Trustees. The campus reserve policies, at a minimum, should address the following needs:

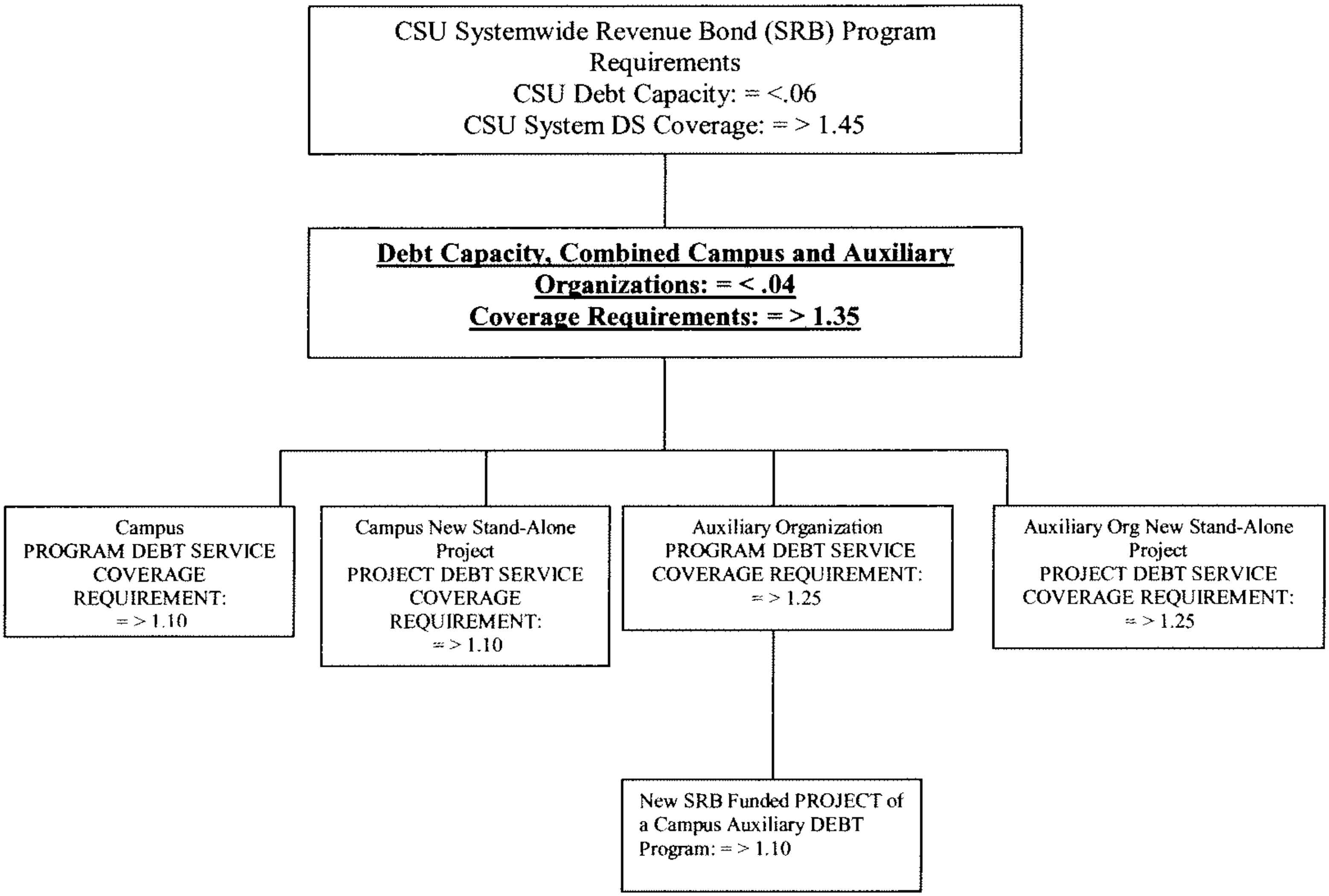
- Major Maintenance and Repair/Capital Renovation and Upgrade
- Working Capital
- Capital Development for New Projects
- Catastrophic Events

7.2 Reserve Review: At a minimum of once every three years, each campus shall conduct an in-depth review to assess the adequacy of the reserves and the campus reserve policies applicable to the projects funded by debt, and shall make necessary adjustments and changes to account for changing conditions. For Major Maintenance and Repair/Capital Renovation and Upgrade Reserves, the reviews should include formal studies of facility systems and necessary funding levels to cover all aspects of cost of replacement through the reserve-funding plan.

Charles B. Reed
Charles B. Reed, Chancellor

Date: October 23, 2006

Attachment A



Attachment B

CSU Policy for Financing Activities
Board of Trustees' Resolution
RFIN 03-02-02

WHEREAS, The Board of Trustees of The California State University ("the Board" or "the Trustees") finds it appropriate and necessary to use various debt financing programs afforded to it through the methods statutorily established by the legislature, and to use to its advantage those programs available to it through debt financing by recognized auxiliary organizations of the California State University; and

WHEREAS, The Board wishes to establish and maintain policies that provide a framework for the approval of financing transactions for the various programs that enable appropriate oversight and approval by the Trustees; and

WHEREAS, Within a policy framework the Board desires to establish appropriate delegations that enable the efficient and timely execution of financing transactions for the CSU and its recognized auxiliary organizations in good standing; and

WHEREAS, The Board recognizes that there is a need from time to time to take advantage of rapidly changing market conditions by implementing refinancings that will lower the cost of debt financing for the CSU and its auxiliary organizations and that such refinancings could be better implemented by reducing the time required to authorize such refinancings; and

WHEREAS, The Board finds it appropriate to establish the lowest cost debt financing programs for the CSU, and to use the limited debt capacity of the CSU in the most prudent manner; and

WHEREAS, There are certain aspects of the tax law related to the reimbursement of up-front expenses from tax-exempt financing proceeds that would be more appropriately satisfied through a delegation to the Chancellor without affecting the Trustees' ultimate approval process for such financings; now, therefore be it

RESOLVED, by the Board of Trustees of The California State University as follows:

Section 1. General Financing Policies

1.1 The State University Revenue Bond Act of 1947 (Bond Act) provides the Board of Trustees with the ability to acquire, construct, or refinance projects funded with debt instruments repaid from various revenue sources.

1.2 The long-term debt programs of the Board of Trustees established pursuant to the Bond Act shall be managed by the Chancellor to credit rating standards in the "A"e category.

1.3 The intrinsic rating of any debt issued by the Trustees shall be at investment grade or better.

1.4 The Trustees debt programs should include the prudent use of variable rate debt and commercial paper to assist with lowering the overall cost of debt.

1.5 The Trustees programs shall be designed to improve efficiency of access to the capital markets by consolidating revenue bond programs where possible.

1.6 The Chancellor shall develop a program to control, set priorities and plan the issuance of all long-term debt consistent with the five-year non-state capital outlay program.

1.7 The Chancellor shall annually report to the Trustees on the activity related to the issuance of long-term debt.

Section 2. Financing Program Structure of the CSU's Debt Program

2.1 To use the limited debt capacity of CSU in the most cost effective and prudent manner, all on-campus student, faculty and staff rental housing, parking, student union, health center, and continuing education capital projects will be financed by the Trustees using a broad systemwide multi-source revenue pledge under the authority of the Bond Act in conjunction with the respective authority of the Trustees to collect and pledge revenues.

Other revenue-based on-campus and off-campus projects will also be financed through this program and the Bond Act unless there are compelling reasons why a project could not or should not be financed through this program (see Section 3 below).

2.2 The Chancellor shall establish minimum debt service coverage and other requirements for Bond Act financing transactions and/or for the related campus programs, which shall be used for implementation of the Trustees' debt programs. The Chancellor shall also define and describe the respective campus program categories.

2.3 The Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Senior Director of Financing and Treasury, and each of them (collectively, "Authorized Representatives of the Trustees"), are hereby authorized and directed, for and in the name and on behalf of the trustees, to take any and all actions necessary to refinance any existing bonds issued pursuant to the Bond Act of 1947 if the refinancing transaction will result in net present value savings, as determined by an Authorized Representative of the Trustees and which determination shall be final and conclusive. Authorized Representatives of the Trustees are authorized to execute, acknowledge and deliver, and to prepare and review, as each of them deems appropriate, all bond resolutions, bond indentures, official statements and all other documents, certificates, agreements and information necessary to accomplish such refinancing transactions.

Section 3. Other Financing Programs

3.1 The Board recognizes that there may be projects, or components of projects, that a campus wishes to construct that are not advantaged by, or financing is not possible, or is inappropriate for the Bond Act financing program. A campus president may propose that such a project be financed as an auxiliary organization or third party entity financing if there is reason to believe that it is more advantageous for the transaction to be financed in this manner than through the Bond Act financing program.

3.1.1 Such financings and projects must be presented to the Chancellor for approval early in the project's conceptual stage in order to proceed. The approval shall be obtained prior to any commitments to other entities.

3.1.2 These projects must have an intrinsic investment grade credit rating, and shall be presented to the Trustees to obtain approval before the financing transaction is undertaken by the auxiliary organization or other third party entity.

3.1.3 If a project is approved by the Trustees, the Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Senior Director of Financing and Treasury, and each of them (collectively, "Authorized Representatives of the Trustees") are hereby authorized and directed, for and in the name and on behalf of the Trustees, to execute, acknowledge and deliver, and to prepare and review, as each of them deems appropriate, any and all documents and agreements with such insertions and changes therein as such Authorized Representatives of the Trustees, with the advice of the General Counsel, may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof, in order to assist with the planning, design, acquisition, construction, improvement, financing, and refinancing of the projects.

3.2 The Chancellor may require campus presidents to establish campus procedures applicable to campus auxiliary organizations for the issuance of debt instruments to finance or to refinance personal property with lease purchase, line-of-credit, or other tax-exempt financing methods. The procedures issued by the Chancellor need not contain a requirement for approval of the Trustees or the Chancellor but may include authority for campus presidents to take all actions to assist the auxiliary organization on behalf of the Trustees to complete and qualify such financing transactions as tax-exempt.

Section 4. State Public Works Board Lease Revenue Financing Program

4.1 The authorizations set forth in this section shall be in full force and effect with respect to any State Public Works Board project which has been duly authorized by the Legislature in a budget act or other legislation and duly signed by the Governor and which is then in full force and effect.

4.2 The Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Senior Director of Financing and Treasury, and each of them (collectively, "Authorized Representatives of the Trustees") are hereby authorized and directed, for and in the name and on behalf of the Trustees, to execute, acknowledge and deliver, and to prepare and review, as each of them deems appropriate, any and all construction agreements, equipment agreements, equipment leases, site leases, facility leases and other documents and agreements with such insertions and changes therein as such Authorized Representatives of the Trustees, with the advice of the General Counsel, may require or approve, such approval to be conclusively evidenced by the execution and delivery thereof, in order to provide for the planning, design, acquisition, construction, improvement, financing, and refinancing of the projects.

Section 5. Credit of the State of California

5.1. The delegations conferred by this resolution are limited and do not authorize the Chancellor or other Authorized Representatives of the Trustees to establish any indebtedness of the State of California, the Board of Trustees, any CSU campus, or any officers or employees of any of them. Lending, pledging or otherwise using the credit established by a stream of payments to be paid from funds appropriated from the State of California for the purpose of facilitating a financing transaction associated with a capital project is permitted only if specifically authorized by a bond act or otherwise authorized by the legislature.

Section 6. Tax Law Requirement for Reimbursement of Project Costs

6.1 For those projects which may be financed under the authority of the Trustees, the Chancellor, the Executive Vice Chancellor and Chief Financial Officer, the Assistant Vice Chancellor Financial Services, the Senior Director of Financing and Treasury, and each of them (collectively, "Authorized Representatives of the Trustees"), are hereby authorized to make declarations on behalf of the Trustees solely for the purposes of establishing compliance with the requirements of Section 1.150-2 of the U.S. Treasury Regulations; provided, however that any such declaration:

6.1.1 Will not bind the Trustees to make any expenditure, incur any indebtedness, or proceed with the project or financing; and

6.1.2 Will establish the intent of the Trustees at the time of the declaration to use proceeds of future indebtedness, if subsequently authorized by the Trustees, to reimburse the Trustees for expenditures as permitted by the U.S. Treasury Regulations.

Section 7. Effective Date and Implementation

7.1 Within the scope of this financing policy, the Chancellor is authorized to further define, clarify and otherwise make and issue additional interpretations and directives as needed to implement the provisions of this policy.

7.2 This resolution supercedes RFIN 11-98-18 and shall take effect immediately. However, the Chancellor shall have the authority to authorize on a individual basis, auxiliary organization projects that are in the planning stage as of the adoption of this policy to proceed under the previous policy in order to prevent situations that would result in additional project costs or additional time-to-completion.

COMMITTEE ON FINANCE

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

Presentation By

George V. Ashkar
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 Bond Anticipation Notes (BANS) to support interim financing under the commercial paper program of the California State University in an aggregate amount not-to-exceed $30,770,000 to provide financing for an auxiliary project. The board is also being asked to approve resolutions relating to this financing. 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 & Poor's as the existing Systemwide Revenue Bonds.

The project is as follows:

CSU Fullerton Auxiliary Services Corporation—Irvine Campus Property Acquisition Project

California State University, Fullerton, through CSU Fullerton Auxiliary Services Corporation (the "Corporation"), a recognized auxiliary organization in good standing at the campus, has the opportunity to purchase a certain real property, commonly known as Banting Corporate Center (the "Project").

The Project is comprised of two 2-story office park buildings (Banting 1 and 3) containing 139,610 net rentable square feet built in 1990 and 2005 on 12.65 acres of land in the City of Irvine. The property includes approximately 877 surface parking spaces. Presently, the campus leases the Banting 3 building in which it operates its Irvine Satellite campus, serving the communities of South Orange County. The current lease runs through 2017. The second building is leased to two commercial tenants, each of whom occupies roughly half of the second building under leases that expire in 2014 and 2018.

The purchase price is estimated at $30,000,000 and is supported by an appraised market value of $31,000,000 as of June 5, 2013. At the time of this write-up, the campus was conducting due diligence on the Project in compliance with the California State University requirements for real property acquisition. Final determinations on the Project's property condition inspection, seismic condition, ADA, etc., are expected to be completed by the time this item is presented to the board. Any costs associated with bringing the Project up to CSU code standards will be covered by Corporation reserves.

The Project acquisition is consistent with the higher education mission of the CSU by providing a long-term site solution for the satellite campus. Under the current leasing plan, the Corporation will continue leasing Banting 3 to the campus and will continue leasing the second building to the existing commercial tenants for the remainder of their leases. As these commercial leases expire, the campus will move operations into the space. The Corporation anticipates that the two buildings will be fully leased to and occupied by the campus after five years.

Because a portion of the Project will be under private leases for five years, a portion of the interim financing will be done through taxable commercial paper. Permanent bond financing will be on a fully tax-exempt basis with Systemwide Revenue Bonds. The bonds will be issued at a not-to-exceed par amount of $30,770,000 to fund the purchase price ($30,000,000) and additional net financing costs (estimated at $770,000). The bonds will be amortized on a level debt service schedule over 30 years, with maximum annual debt service of $2,000,000. The bonds will be secured by a general obligation pledge of the Corporation's unrestricted revenues, including rental and parking revenues generated by the Project. On June 20, 2013, the board of directors of the Corporation adopted a resolution authorizing the acquisition and financing of the Project.

Based on the financial plan, in 2014-2015, the first full year of debt service repayment for the Project, the debt service coverage for the Project is 1.17 and the Corporation's overall debt service coverage is 1.49, compared with the CSU benchmark of 1.25 for both the project and auxiliary debt program. When combining the Project with 2011-2012 information for all campus pledged revenue programs and the campus' existing auxiliary debt program, the campus' overall debt service coverage is projected at 1.56 in 2014-2015, which exceeds the CSU benchmark of 1.35. Because of the lease plan between the Corporation and the campus, which has only periodic increases to cover increases in operating expenses, the Project debt service coverage is not expected to increase for the foreseeable future. However, the strength of the Corporation and campus debt service coverage ratios helps support the financing. The not-to-exceed amount and debt service on the bonds is based on an all-in interest cost of 5.47%, reflective of adjusted market conditions as of June 2013 plus 100 basis points as a cushion to account for any market fluctuations that could occur before the permanent financing bonds are sold.

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 $30,770,000 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 4 of the Committee on Finance at the July 23, 2013, meeting of the CSU Board of Trustees is recommended for:

CSU Fullerton Auxiliary Services Corporation—Irvine Campus Property Acquisition Project

COMMITTEE ON FINANCE

Granada State University House—Funding Plan

Presentation By

Benjamin Quillian
Executive Vice Chancellor and
Chief Financial Officer

Summary

As directed by the Board of Trustees at the May board meeting, the 10-year facility improvement plan for the Granada State University House has been revised to assume a five percent annual return on investment for the 10 year budget. The Granada State University House restricted endowment was managed through a Trust account established in 1991 per resolution of the Board of Trustees RSUH 07-91-03. Due to insufficient investment returns to cover the annual operating costs and the annual repairs over the next ten years, in May 2013 the endowment was moved from the CSU back to the CSU Foundation per resolution of the board of Trustees RFIN 05-13-03.

Projected Investment Returns

The investment proforma assumes a five percent annual return on investment. The CSU Foundation, an approved systemwide auxiliary in good standing, has the ability to invest in equity securities, providing the ability to earn a potentially higher long-range total average annual return on the Granada State University House endowment. As an example, over the last three fiscal years, the CSU Foundation has averaged a return of 10.88 percent per annum. By comparison, prior to moving the endowment from the CSU Trust to the CSU Foundation the average annual return over the same time period was less than two percent. Therefore, although a very conservative return is being adopted within the investment proforma, this return is markedly higher than the historical return in the CSU Trust account.

Exhibit A outlines the estimated expenditures and investment return over the next ten years.

Attachment A
Finance- Item 4
July 23, 2013

Exhibit A

State University House
2013-14 Budget
10-Year Facility Improvement Plan

		Project Year	1	2	3	4	5	6	7	8	9	10
			Proposed Budget									
		Maintenance and Repair Component	**2013-2014**	**2014-2015**	**2015-2016**	**2016-2017**	**2017-2018**	**2018-2019**	**2019-2020**	**2020-2021**	**2021-2022**	**2022-2023**
		Balance Forward	2,067,821	2,008,386	1,968,446	1,815,763	1,747,028	1,733,253	1,710,953	1,696,453	1,680,253	1,655,053
		Revenue										
		Investment Income [1]	103,400	100,400	98,400	90,800	87,400	86,700	85,500	84,800	84,000	82,800
		Expenses										
	1	Emergency Services / Contingency	10,000	10,000	10,000	10,000	20,000	20,000	20,000	20,000	20,000	20,000
◊	2	Roof Repair										
◊	3	Site Paving Upgrades	5,581									
◊	4	Exterior Window and Door Systems			112,191							
◊	5	Exterior Painting	9,664					10,000				10,000
◊	6	HVAC System Replacement				68,289						
◊	7	Renovate Bathrooms	20,825		22,047							
◊	8	Garage Area Restoration		17,322								
◊	9	Flooring Restoration	3,537		1,226							
◊	10	Interior Ceiling Restoration	8,324									
◊	11	Accessibility Conversion	21,934									
◊	12	Exterior Lighting Replacement	2,543									
◊	13	Electrical Service and Distribution Work			23,061							
◊	14	Hot Water Circulation Energy Savings	2,702									
◊	15	Drain Pipe Replacement		10,949								
◊	16	Tree Replacement and Restoration	3,725									
◊	17	Pool Finish and Equipment Restoration		5,561								
◊	18	Awning Replacement				4,246						
◊	19	Interior Lighting Efficiency Upgrade			6,558							
◊	20	Interior Wall and Trim Restoration		21,508								
◊	21	Water Heater Replacement					858					
◊	22	Site Fencing Refinishing					2,317					
		Facility Condition Report									7,200	
		Subtotal Facility Improvement Plan Expenses	**88,835**	**65,340**	**175,083**	**82,535**	**23,175**	**30,000**	**20,000**	**20,000**	**27,200**	**30,000**
		Operating Budget [2]	74,000	75,000	76,000	77,000	78,000	79,000	80,000	81,000	82,000	83,000
		Total Expenditures	**162,835**	**140,340**	**251,083**	**159,535**	**101,175**	**109,000**	**100,000**	**101,000**	**109,200**	**113,000**
		Ending Endowment Balance	**$ 2,008,386**	**$ 1,968,446**	**$ 1,815,763**	**$ 1,747,028**	**$ 1,733,253**	**$ 1,710,953**	**$ 1,696,453**	**$ 1,680,253**	**$ 1,655,053**	**$ 1,624,853**

◊ Identified in Facility Condition Analysis, March 2013
1 - Investment Income [1] = Return on Investment of 5% once Endowment is transferred to the Foundation
2 -Operating Budget [2] = includes escalation CPI @ 2.5%