

DEPARTMENT OF FINANCE BILL ANALYSIS

AMENDMENT DATE: April 9, 2007
POSITION: Neutral
SPONSOR: California State University

BILL NUMBER: SB 855
AUTHOR: M. Ridley-Thomas

BILL SUMMARY: CA State University: State Revenue Bond Act of 1947

This bill would make a number of technical changes to the California State University (CSU) revenue bond program. Some of the changes include authorizing: (1) the CSU Board of Trustees (Trustees) to issue commercial paper directly by including commercial paper within the statutory definition of notes and revenue bond anticipation notes; (2) the payment of interest on a basis other than semi-annual or annually to accommodate issues of variable rate debt; and (3) CSU to loan or advance proceeds from its revenue bonds or revenue bond anticipation notes to third parties through a loan agreement involving projects approved by the Trustees.

FISCAL SUMMARY

The bill could streamline the external revenue bond financing and treasury processes at CSU and thereby reduce costs in the financing of non-state capital projects (i.e., student housing, parking, student unions, etc.). CSU stated that these technical changes to simplify the process of financing projects and provide greater flexibility to be able to issue variable rate debt would lower CSU's borrowing costs by taking advantage of lower interest rates.

COMMENTS

The Department of Finance (Finance) is neutral on this bill for the following reasons:

- The bill could save CSU and its auxiliary organizations significant money over time, which CSU has indicated could result in lower student costs.
- The bill would not affect the General Fund.

Analyst/Principal (0384) S. Swan	Date	Program Budget Manager Jeannie Oropeza	Date
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Department Deputy Director	Date
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Governor's Office:	By:	Date:	Position Approved _____
			Position Disapproved _____

BILL ANALYSIS Form DF-43 (Rev 03/95 Buff)

M. Ridley-Thomas

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SB 855

ANALYSIS

A. Programmatic Analysis

The State University Revenue Bond Act of 1947 authorized the California State University, Board of Trustees (Trustees) to utilize the proceeds of various fees, rents, or other charges, including fees related to the construction of student body centers, parking and other transportation facilities, and student health facilities, as revenue sources to repay the principal and interest on the bonds issued by the Trustees to fund the construction of these facilities. The proceeds of these fees are continuously appropriated to the Trustees for their respective purposes.

This bill would make a number of technical changes to the CSU revenue bond program. Some of the changes include authorizing: (1) the Trustees to issue commercial paper directly by including commercial paper within the statutory definition of notes and revenue bond anticipation notes; (2) the payment of interest on a basis other than semi-annual or annually to accommodate issues of variable rate debt; and (3) CSU to loan or advance proceeds from its revenue bonds or revenue bond anticipation notes to third parties through a loan agreement involving projects approved by the Trustees (intended to provide loans or advances primarily to CSU's auxiliary organizations at a lower cost).

CSU indicates that, among other things, the bill would help CSU simplify the process of financing auxiliary organization projects (i.e., projects funded by student fees, gifts, etc.) under the CSU systemwide revenue bonds. Prior to 2002, each campus auxiliary was responsible for obtaining financing when building a new facility, such as a parking structure, and the debt was backed by individual revenue streams, such as parking fees. Under the new consolidated revenue pledge (starting in 2002), CSU provided a systemwide pledge of housing, parking, student unions, student health centers, and continuing education revenue streams. This process provided for an improved credit rating and better interest rates on financing than if the auxiliary organization had sought their own separate financing.

Finance has the following comments on the proposed changes:

Issuing Commercial Paper Directly – Currently, CSU must use an auxiliary organization to issue commercial paper associated with its systemwide revenue bonds. The proposed change would appear to provide CSU with a more streamlined approach for accessing the commercial paper market. Finance believes this is reasonable.

Loan or Advances of Revenue Bonds – This provision would allow loans or advances of its revenue bonds to any person or state or local governmental entity for capital projects approved by the Trustees. CSU stated that although this could include a developer of one of its capital projects, about 98 percent of the entities this bill would include reflect its own auxiliary organizations, and Joint Powers Agreements between CSU and local governments. Finance notes that clear guidelines and criteria should be established for providing the loan or advances of revenue bonds to ensure that loans and advances are made in accordance with proper internal controls and represent proper and transparent transactions.

B. Fiscal Analysis

The bill could streamline the external revenue bond financing process at CSU and thereby reduce costs in the financing of non-state capital projects.

BILL ANALYSIS/ENROLLED BILL REPORT--(CONTINUED)

AUTHOR

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SB 855

Code/Department Agency or Revenue Type	SO	(Fiscal Impact by Fiscal Year)							Fund Code
	LA	(Dollars in Thousands)							
	CO	PROP							
	RV	98	FC	2006-2007	FC	2007-2008	FC	2008-2009	
6610/CSU	SO	No		-----	See Fiscal Summary	-----		0001	