

Board of Visitors
SPECIAL BOARD MEETING
Board of Visitors' Conference Room
October 9, 2003

MINUTES

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• **Call to Order/Quorum**

The Rector called the meeting to order at approximately 9:07 a.m. At the request of the Rector, Mr. Kelly confirmed that a quorum was present. The following Board members were in attendance:

Board Members Present:

Mr. Jack Ezzell, Jr., Rector
Mrs. Viola Madison-Foreman, Secretary
Mr. Michael Ball
Ms. Virginia Board
Mrs. Teresa Carrington
Dr. Caspa Harris
Mr. Donald Patterson
Mr. Rod Rodriguez (*arrived 9:12*)
Mr. Bobby Vassar

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Board Members Absent:

Mr. Colvin Gibson, Vice Rector
Mr. Willie Brown
Mr. Howard Kern
Dr. Jacquelyn Madry-Taylor

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Members of the NSU Staff Present:

Dr. Marie McDemmond, President
Dr. Alvin Schexnider, Executive Vice President
Mr. Kevin Appleton, Vice President, Finance and Business
Mrs. Karla Johnson, Executive Assistant to the President and Agency Liaison (*arrived 9:18*)
Mr. Patrick Kelly, General Counsel
Mr. Robert Askew , Director, E 2 F

Other(s) Present:

Mr. George L. Consolvo, Esquire, Kaufman & Canoles, P.C.

• **Discussion Item**

Mr. Ezzell and Dr. McDemmond thanked Board members for making time to attend the meeting and gave special thanks to Dr. Harris, Ms. Board and Mr. Vassar who traveled to be here today.

Mr. Ezzell stated that there was one item on the agenda, the financing lease between the Enterprise and Empowerment Foundation (E 2 F) and Norfolk State University (NSU) to support bond financing for the construction of RISE I.

Dr. McDemmond stated that the Board approved the financing arrangement for RISE at its August meeting. She stated that she felt that it would be appropriate to apprise the Board of what is involved with the bonds and to have the Board vote separately on the bond financing issue.

Dr. McDemmond welcomed Mr. George Consolvo, Attorney, Kaufman & Canoles, who has been hired as the bond counselor for RISE. She stated that Mr. Consolvo has done this type of work in the past as the bond counselor for ODU and George Mason. Dr. McDemmond also introduced Mr. Kevin Appleton as the new Vice President for Finance and Business at Norfolk State University and gave a brief description of his credentials. She stated that Mrs. Johnson was at a meeting downtown and would arrive shortly.

Dr. McDemmond stated that the General Obligation Bond (GOB) was passed last year, approving \$700M for education and \$200M for parks and tourism. However, the legislature stipulated that only \$250M in bonds could be provided annually and that capital projects in the Virginia Building Authority (VBA) would be funded first during each fiscal year. As an example, this past fiscal year, \$200M was earmarked for the VBA leaving only \$50M for other projects in the GOB. Dr. McDemmond stated that this is due in part to more projects being pushed to the VBA as the State does not have a dedicated revenue stream. She stated that this has implications on renovation funding for Norfolk Community Hospital that is being requested for FY 04-06 biennium. If more projects are placed in the VBA, less annual funding would be paid out on the GOB, thus pushing the GOB payout further out in years.

Recommendation – Dr. McDemmond stated that the RISE Center is a top priority. In order to construct RISE I by 2005, the university has entered into an agreement to let the revenue bonds through the Norfolk Redevelopment and Housing Authority (NRHA), a tax exempt entity. NRHA approved to let the bonds for E 2 F at a meeting on Monday, October 6, 2003. Dr. McDemmond stated that City Council is scheduled to vote on this in late October/early November. She stated that she met with the Mayor on Tuesday to discuss the bonds and other projects.

Mr. Consolvo stated that the process of letting bonds is not new. He stated that ODU, George Mason and now NSU, would be guaranteed by the GOB on a much longer period. Dr. McDemmond stated that SunTrust would provide the \$18M for the cost of the facility now. E 2 F will use this money to construct RISE I by May 2005, instead of waiting for the GOB funding slated for FY 06-07. Mr. Consolvo stated that SunTrust considered this loan process as more of an “anticipation bond” with interest.

Dr. McDemmond stated that after the building is completed, the university would have to lease the building from E 2 F with an “interest and operating lease.” This lease would start in June 2005 and run at the latest through FY 06-07 (year in which GOB funding would be drawn down). She stated that the State has been providing the GOB funding at the beginning of each fiscal year and it is unlikely that this would change. However, the worst case scenario is that the lease would be longer if the State decides to provide GOB funding at the end of the fiscal year. Once GOB funds have been provided, the university would purchase the building and the land from E 2 F.

Dr. McDemmond stated that the university has agreed to reimburse E 2 F, since it has no base funding. E 2 F received a line of credit from BB&T to purchase Block 1 of the land. She stated that Rutter and Montagna have been paid for the property that was acquired through the quick take. Block 2 was purchased with funding (\$500,000) from Empowerment 2010.

Mr. Vassar asked if the money paid for the lease would be reimbursable through the bond funding. Dr. McDemmond stated no it would not be reimbursable. She stated that the E 2 F must use the most dollars possible to build and outfit the building as equipment money is not included in bond. After the university purchases RISE I, the building would become State property (*Note: Must be accepted and approved through the State process*). Once the State accepts the building, the operating cost would transfer to the State. Dr. McDemmond stated that the university has identified funding to pay the lease and operating until the building is accepted by the State. If for some reason the State does not accept the building, then the university would have to hold the budget tight to fund the cost. Mr. Consolvo stated that there would be some interest money during construction that could be applied to the operating cost. Dr. McDemmond summarized recent funding from the State, stating that NSU’s operating budget has increased 66%.

The following questions were posed to Mr. Consolvo by Mrs. Carrington:

- **What is the estimate of the overall fees associated with the bond?**

- Letter of credit is going to be 50 basis points (this figure is extremely attractive)
- Marketing is going to be 10 basic points which is below market
- Underwriting fee is about \$60,000

- **If the bonds are going to be funded at issuance, will this be an albatross bond?**

Yes, the bonds would be funded at issuance with the proceeds available to the project fund which will vary and offset some of the costs. This is an unsecured bond with no real estate collateral which helps to drive down the issuance cost.

- **Can a swap be made at any time?**

Yes, this is in place as part of the strategy. There is a fixed rate that would not be subject to interest rate fluctuations. The swap can be done at any time or at issuance. The swap is an E 2 F obligation and not that of NSU.

Mrs. Carrington explained that a swap is a financial instrument and thereby a financial obligation. A swap should not be made prematurely. The dates need to be matched out.

Other Board members asked Mr. Consolvo the following questions:

- **Dr. Harris - What do you anticipate the interest rate to be at issuance?**

These bonds are considered lower floaters. If they were issued today, it would be about 2% and if you add the fees mentioned above it would be less than 3%. It is structured in a way that there would be no principal curtailment until about five or six years out. The loan would, of course, be paid before that time so the only obligation the university would have as a “leasee” is to pay the interest cost and the cost of operation when the building is accepted.

- **Mr. Patterson – How did E 2 F select SunTrust as the banking institution for the bonds?**

Mr. Askew stated that E 2 F solicited proposals. He stated that BB&T and SunTrust responded; however, SunTrust’s offer was extremely attractive. Mr. Consolvo stated that SunTrust is also very comfortable with the state takeout which drives down the issuance cost.

- **Mr. Ball - What would be the approximate cost of the lease and is there an amount stipulated in the resolution?**

It is generic because at this point we don’t know what the variable would be. Dr. McDemmond stated that the cost would be for approximately thirteen months; however, the worst case scenario would bring the cost to roughly half million.

Mrs. Carrington stated that the university would be earning interest on what is not drawn.

- **Vassar – Will the State pick up the debt service after thirteen months?**

Dr. McDemmond stated that the State would not pay any debt service until the bonds have been issued and the building has been accepted.

- **Vassar – Will E 2 F retitle or continue to lease the project to the university at a reduced rental?**

Mr. Consolvo stated that Mr. Vassar is referring to the draft preliminary financing summary which is an older version of the draft. This approach has been abandoned and the document should be discarded. Only the new resolution is valid and is to be considered by the Board. Mr. Consolvo stated that he and NSU staff met with the State Treasury about three weeks ago and this was one of the issues that was discussed.

Dr. Harris recommended, as a former member of the Treasury Board, that the President and/or the Executive Vice President should be present or make the presentation to the Treasury Board. He stated that there would likely be pressure from other schools asking that their projects be funded as soon as possible. It gives the Treasury Board a better impression if management attends the meeting. Dr. McDemmond stated that it is on her calendar. She stated that Mr. Consolvo, Mr. Appleton and representatives from SunTrust are scheduled to be at the meeting. She stated that either she or Dr. Schexnider would also attend.

- **Action Item**

Mr. Ezzell asked the Board to turn to Tab 3 in the Board book to review the resolution for approval. Dr. McDemmond handed out a new resolution that was developed by Mr. Consolvo and Mr. Kelly. She stated that the new resolution is more comprehensive and asked Mr. Consolvo to give a brief overview. Mr. Consolvo stated that the resolution includes preambles, outlining the authority given to NRHA to act and issue bonds, documentation requirements, the deed of lease once approved by the Board, indentures and other items. He stated that the body of the resolution authorizes the President or her designee to sign documents as appropriate.

Dr. McDemmond stated that Mr. Rodriguez has agreed to assist with the selection of a contractor for RISE I. Clark-Nexsen is close to drawings that are acceptable. The groundbreaking for the facility is set for November 1 at 8:00 a.m. Board members are invited to attend. The buildings on the property are to be demolished next week. She thanked Mr. Askew and Mr. Barry Hunter of Kaufman and Canoles for all the hard work they have put into the project. She stated that proposals for RISE II are being developed and that building is scheduled to be completed late 2005.

Mrs. Carrington stated that she feels very comfortable with the team that is assembled to handle the bonds.

Dr. Harris moved, seconded by Mr. Vassar and unanimously approved by the Board to approved the resolution authorizing the lease of certain property financed by the issuance of up to \$18,000,000 Norfolk Redevelopment and Housing Authority lease revenue bonds (Enterprise and Empowerment Foundation at Norfolk State University RISE I Project) and the execution of related documents.

Mr. Ezzell asked for a roll call vote that was done by Mrs. Johnson.

Ball yes Board yes
Brown (absent from meeting) Carrington yes
Ezzell yes Harris yes
Gibson (absent from meeting) Kern (absent from meeting)
Madison-Foreman yes Madry-Taylor (absent from meeting)
Patterson yes Rodriguez yes
Vassar yes

• **Adjournment**

Dr. McDemmond stated that she would like to give a brief update on the Residential Hall project to Board members who wished to stay after the meeting. Mr. Kelly stated that this would be appropriate as long as no actions are taken.

There being no further business the meeting adjourned at approximately 9:50 a.m.

Respectfully submitted,

Karla C. Johnson, Executive Assistant
to the President and Agency Liaison

Viola Madison-Foreman, Secretary
Board of Visitors