



Item: AF: A-M

AUDIT AND FINANCE COMMITTEE

Thursday, December 13, 2012

SUBJECT: ROLL CALL AND APPROVAL OF THE DRAFT MINUTES FOR THE OCTOBER 18, 2012 AUDIT AND FINANCE COMMITTEE MEETING.

PROPOSED COMMITTEE ACTION

Initiate roll call to document member participation to ensure appropriate quorum numbers are achieved and to approve the minutes of the October 18, 2012 Audit and Finance Committee meeting.

COMMITTEE MEMBERS

Mr. Anthony Barbar, Chair	_____
Mr. Thomas Workman, Jr., Vice Chair	_____
Mr. David Feder	_____
Dr. Angela Graham-West	_____
Dr. William McDaniel	_____
Mr. Abdol Moabery	_____
Mr. Robert Rubin	_____
Mr. Robert Stilley (ex-officio)	_____
Mr. Paul Tanner	_____

BOT MEMBERS

Dr. Jeffrey Feingold	_____
Mr. Robert Huffman	_____
Mrs. Sherry Plymale	_____
Dr. Julius Teske	_____



**AUDIT AND FINANCE COMMITTEE
DRAFT MINUTES
Thursday, October 18, 2012**

AF: A-M. Roll Call and Approval of the Draft Minutes for the June 19, 2012 BOT Audit and Finance Committee meeting.

Mr. Anthony Barbar, Chair of the Board of Trustees (BOT) Audit and Finance Committee (AFC), convened this meeting at 10:06 a.m. Roll call commenced with the following Committee members, in addition to Mr. Barbar, participating: Mr. Thomas Workman, Jr., Vice Chair, Mr. David Feder, Dr. Angela Graham-West, Dr. William McDaniel, Mr. Robert Rubin, Mr. Robert Stilley (ex-officio), and Mr. Paul Tanner.

Other Trustees attending the meeting included: Dr. Jeffrey Feingold, Mr. Robert Huffman, Mrs. Sherry Plymale and Dr. Julius Teske.

The following University officials participated: Dr. Mary Jane Saunders, President; Mr. Dennis Crudele, Senior Vice President for Financial Affairs; Dr. Corey King, Associate Vice President and Dean of Students; Mr. Morley Barnett, Inspector General; Mr. Patrick Chun, Athletics Director; and, Mr. David Kian, General Counsel.

The following guest participated: Mr. Jeffrey Larson, Financial Advisor-Larson Consulting Services.

Upon call, a motion was made and seconded to approve the minutes of the June 19, 2012 AFC meeting without change or correction. No discussion or commentary followed. **The motion passed unanimously.**

AF: A-1 Review and Request for Approval of the Resolution Requesting the Division of Bond Finance of the State Board of Administration to issue Revenue Bonds on Behalf of Florida Atlantic University in an Amount Not to Exceed \$15,600,000 to Finance the Construction of a Parking Garage on the Boca Raton campus.

Mr. Crudele provided an overview of this agenda item which consists of a resolution requesting that the Division of Bond Finance (DBF) issue bonds in an amount not to exceed \$15.6 million to build a third parking garage on the Boca Raton campus. Members were informed that the site is on the north side of campus near Innovation Village and will provide a net additional 943 parking spaces to the parking system bringing the total campus parking to 11,403 spaces.

The bonds are to be secured by net parking system revenues associated with the student transportation access fee, fines and other miscellaneous revenues, after deducting operating and maintenance expenses. Debt service has been calculated using an interest rate of 5.75 percent as is required by the DBF to ensure fiscal stability in meeting the debt obligation of this and the other two parking garages. Historic analysis indicates it should come in around 4-4.25 percent reducing the calculated debt by almost \$200,000 annually.

Mr. Crudele noted the detailed back-up documentation provided including the Project Summary, Draw Schedule, Sources and Uses, Estimated Debt Service Schedule, Additional Security and Parity Test, Project Pro-Forma and five-year parking history. Members were informed that the Board of Governors (BOG) must also approve this project and the intent is to present this request during its November 7-8, 2012 meetings. Upon BOG approval and the sale of the bonds construction should commence in January 2013 and be complete by September 2013.

A query followed on the variant percentages projected in this bond issue to that of the Honors College refinancing indicated within the next agenda item. The variance was explained as the differing requirement between bonding procedures and those of a bank loan. Additionally, it was noted that there is no penalty associated with retiring the debt early and, that as the bond issuer the DBF can initiate refinancing at any time with no notice required to FAU.

With no further questions or comments, a motion was made and seconded to recommend BOT approval of the resolution requesting the DBF to issue revenue bonds in an amount not to exceed \$15.6 million to finance the construction of a parking garage as presented. **The motion passed unanimously.**

AF: A-2. Review and Request for Approval of Refinancing of the Honors College Residence Halls.

Mr. Crudele advised that the residence halls were built through the Florida Atlantic University Foundation, Inc. (FAUF) in two phases in 1999 and 2000 as Certificates of Participation (COP) with fixed rates of five percent and 5.723 percent, respectively. With interest rates down, it is advantageous to refinance the two series of COP to reduce costs.

The University initiated the Request for Proposal (RFP) process with the assistance of a financial advisor, Larson Consulting Services, and bond counsel, Bryant, Miller & Olive. Proposals were received and reviewed by an evaluation committee which included a member of the FAUF. As indicated in an October 17, 2012 email (see ATTACHMENT A) it was learned that the policies of the financial institution initially favored for the refinancing have proven unsatisfactory. As such, to accommodate continuing negotiations, the resolution being presented to this Committee has been modified to a more general format that provides approval to the refinancing but authorizes the FAUF and the University flexibility to continue negotiations to achieve more desirable results expected to come in at under two percent. Mr. Crudele advised that he will bring back to this Committee a report on final negotiation terms and the savings to be realized.

Discussion followed with information being provided that the savings is estimated to be between \$2.5 million and \$2.9 million over the 18 years to maturity; that \$850,000 in debt reserve will be used to renovate the residence halls; on options associated with the 'put option' including the FAUF's ability to renegotiation terms with the bank or seek another refinance if desirable; and, of options to eliminate the 'put option' while accepting a higher interest rate.

A motion was made and seconded to recommend BOT approval of the resolution requesting the refinancing of the Honors College Residence Halls with the caveat that final terms and financing data be presented as soon as the refinancing process is finalized. **The motion passed unanimously.**

AF: A-3. Review and Request for Approval of Refinancing the Innovation Village Housing 2010 Series B Bonds.

Mr. Crudele counseled that the Innovation Village Housing (IVH) 2010 Series B Bonds portion of the IVH financing plan were initially purchased as a private placement by the developer at \$3.365 million and with a 7.39 percent interest rate; the maximum allowed by Florida Statutes. It has always been intended to refinance this portion of the debt and with favorable market conditions the services of the financial advisor Dunlap & Associates and bond counsel, Bryant, Miller & Olive were obtained to initiate this objective.

The same issues associated with the Honors College COP apply here since the same financial institution has been chosen for this initiative. The resolution being presented to the Committee has been modified to a more general format that provides approval to the refinancing but authorizes the FAU Finance Corporation (FAUFC) and the University flexibility to continue negotiations to achieve more desirable results expected to come in at under two percent. Again substantial savings are anticipated and along with discussion on the put option is the possibility of reducing the maturity date. Mr. Crudele will bring a report on final negotiation terms and the savings to be realized back to the Committee upon completion.

With no discussion or queries put forth by the Committee, a motion was made and seconded to recommend BOT approval of the resolution requesting the refinancing of the IVH 2010 Series B Bonds with the caveat that final terms and financing data be presented as soon as the refinancing process is finalized. **The motion passed unanimously.**

AF: A-4. Request for Approval to Increase the Orientation Fee.

Mr. Crudele advised the Committee that the maximum orientation fee institutions are statutorily allowed to charge is \$35 which has remained unchanged since 1971. The fee is no longer sufficient to cover the costs associated with the program including increased cost of providing resource materials, staffing, etc., which is needed to maintain a quality Orientation Program. FAU would like to petition the BOG to increase this fee to \$50 which, if approved, would be effective Fall 2013.

Discussion followed revealing that the majority of institutions are currently requesting the increase to \$50 and that the fee is to cover orientation only. Historically, attendance at orientation signaled a student's commitment to an institution. This is no longer applicable as students attend multiple institutional orientation sessions and this fee increase is to ensure continued excellence in the program.

A motion was made and seconded to recommend BOT approval the request to increase the Orientation Fee as presented. **The motion passed unanimously.**

AF: I-1. Review of the Office of the Inspector General's Report of Annual Activities for Fiscal Year Ended June 30, 2012.

Mr. Barnett reviewed the report providing a summary of his office's fiscal year productivity which included five internal audits; follow-up on 26 audit recommendations to ensure implementation; consulting services to review internal controls associated with p-Card transactions, FAU Foundation, Inc. expenditures and surprise cash counts within petty cash/operating change funds; and, advisory services related to employee leave benefits and minor construction projects, etc.

The report provided goals for the coming year including timely completion of identified internal audits. Noteworthy is the oversight of a planned audit of information technology policies and procedures to be conducted by an external auditor. The audit should starting in February and be concluded before Spring Break. Members were advised that due to the sensitive nature of the audit, results will be disseminated confidentially to this Committee.

AF: I-2. Review of the Fourth Quarter Financial Report, July 1, 2011 to June 30, 2012.

Mr. Crudele provided a five-year comparison of FAU's Educational and General Operating Budget status showing the loss of over nine percent in state funding. An update on each of the budget components was giving with year-end financial data summarized as follows:

REVENUE				
<u>Fund Type</u>	Actual	<u>Adjusted Budget</u>	<u>Remainder</u>	<u>% of Actual to Budget</u>
Educational & General	\$262,725,000	\$241,960,000	\$20,766 ,000	108.6
Auxiliary Enterprises	105,955,000	105,270 ,000	685,000	100.7
Student Financial Aid	193,595,000	185,335,000	8,260 ,000	104.5
Student Activities	8,658,000	8,233,000	425,000	105.2
Athletics	13,966,000	15,707,000	(1,741,000)	88.9
Stadium	4,542,000	6,390,000	(1,848,000)	71.1
Sponsored Research / Grants	59,141,000	62,955,000	(3,814)	93.9
Concessions	495,000	500,000	(5,000)	98.9
TOTAL REVENUE	\$649,078,000	\$626,350,000	\$22,728,000	103.6

EXPENDITURES

<u>Fund Type</u>	<u>Actual</u>	<u>Adjusted Budget</u> <u>†</u>	<u>Remainder</u>	<u>% of Actual to Budget</u>
Educational & General	\$251,189,000	\$241,960,000	(\$9,229,000)	103.8
Auxiliary Enterprises	83,482,000	102,609,000	19,127,000	81.4
Student Financial Aid	193,354,000	185,284,000	(8,070,000)	104.4
Student Activities	8,348,000	9,651,000	1,303	86.5
Athletics	14,026,000	15,707,000	1,681,000	89.3
Stadium	2,381,000	2,535,000	154,000	93.9
Sponsored Research/Grants	55,693,000	62,225,000	6,532,000	89.5
Concessions	399,000	500,000	101,000	79.9
TOTAL EXPENDITURES	\$608,872,000	\$620,470,000	\$11,598,000	98.1

Mr. Crudele noted that while not part of the FAU Operating Budget, financial data on Florida Atlantic University Foundation, Inc. contributions to the FAU Operating Budget in support of items like the A.D. Henderson School and eminent scholars was provided.

Other noteworthy budgetary issues included:

- The increased budget authority need in Student Financial Aid due to increased grants and loans from the federal government.
- The conclusion of the first year of eLearning operations contributing to revenue increases in the Auxiliary budget component.
- The November 1 payment completing funding of the required second debt reserve associated with Stadium financing.

Conversation followed regarding athletics including challenges to increase current and future athletics staff salaries; the underutilization of the FAU Stadium; the increase in the number of home games planned for 2016; and, the consequences in reducing 'paycheck' games and the loss of associated game guarantee funding on budgeting and operations. Additionally, a request was put forth to include a tab on contributions of the Harbor Branch Oceanographic Institute Foundation.

Mr. Crudele then focused review on data provided on student credit hour production as the funding received from these hours is so significant to FAU's operating budget. Past years have provided approximately five percent growth and looks to continue in this manner

Additional discussion followed on contingencies for future Legislative reductions. The annual Legislative appropriations process limits definitive planning abilities, but as part of the Strategic Planning process seeking priorities, measuring trends, pursuing prior year funding reduction restoration and safeguarding carry forward funding are all steps being taken.

With the AFC agenda complete and no further questions or discussion items put forth, a motion was made and seconded to adjourn this meeting. **The motion passed unanimously and the meeting was adjourned at 11:00 a.m.**

ATTACHMENT A

From: Dennis Crudele
Sent: Wednesday, October 17, 2012 11:55 AM
To: Anthony K.G. Barbar (abarbar@barbar.com); tom@workmanpcpa.com; William McDaniel; paul.tanner@ubs.com; Robert Rubin; angela.west@raymondjames.com; amoabery@gatelesis.com; davidfeder1@yahoo.com; rjstilley@heartcareimaging.com
Cc: M.J. Saunders
Subject: Audit & Finance Action Item AF: A-3

Audit & Finance Committee members:

Change in Audit & Finance Action Item AF: A-3

In your BOT packet, Item AF: A-3 is a request to award the 2010 Series B – Innovation Village refinancing action to PNC Bank, based upon a competitive bid process we conducted earlier this month.

Late yesterday we received information from PNC Bank that they intend to exercise their “put option” immediately upon closing, not 150 days prior to the 7 year time frame as is typical. This action was not indicated in their original bid documents that we reviewed and only yesterday we were made aware that this is a policy and practice of PNC Bank during negotiations of this type.

The effect of this change on the refinancing of the 2010 Series B Bonds causes FAU administration and FAU’s Bond Counsel two concerns as we prepare to close this deal.

- First, this action by PNC will require the University to immediately recalculate the debt service coverage ratio, due at the end of the seven years. As background, the University is required to maintain a minimum of 1.25x coverage ratio of net revenues to debt on all transactions of this type. PNC Bank’s requirement will force us to move from the 1.56x coverage ratio that we currently have to a 1.29x coverage ratio (the 1.56x coverage currently allows for some wiggle room should an emergency occur that fewer students will occupy dorms in any given year). We feel that 1.29x obligates us to a future coverage ratio that is too close to our obligation to our bond holders of 1.25x. While we are confident the 1.25x will not be breached in future years, we choose to error on the side of caution should circumstances change.
- Second, if we choose in the future to issue additional debt on this trust indenture, this action could cause us difficulty in meeting the additional bonds test, required by our current bond holders on the existing indenture.

Given these two concerns, FAU administration has chosen to select the proposal offered by a second bidder, J.P. Morgan Chase. While the J.P. Morgan Chase interest rate is slightly higher than PNC Bank, 1.80% vs. 1.66%, J.P. Morgan Chase will not give notice

to us at closing to exercise the “put option”. J.P. Morgan Chase has confirmed with our Bond Counsel that they will not exercise this option until 150 days prior to October, 2019. The impact of the annual savings lost by moving from PNC Bank to J.P. Morgan Chase is reduced from \$102,000 to approximately \$97,000, respectively (or only \$5,000 annually). FAU Administration feels that this small annual reduction in savings is still a better option because J. P. Morgan Chase conditions protect our interests in the longer term.

We are now working with our Bond Counsel, Financial Advisor and the FAU General Counsel’s Office to prepare a new resolution for this agenda item for tomorrow’s meeting that is more generic in your authorization to allow the Corporations (FAUF and FAUFC) to refinance the debt.

On another related note, you will notice that PNC Bank is also the low bidder on the Honors College refinancing (AF: A-2). PNC will continue to require the “put option” at closing on this transaction as well, however, with this refinancing, Bond Counsel has determined that exercising the “put option” in this case will not have the same effect on our long term interests because the FAU Foundation will not be issuing additional debt on this indenture nor will the debt service coverage ratio be breached.

I realize this is probably more information than you would like to hear at this late hour and I apologize for any inconvenience that changing the action item may have caused you.

Please feel free to contact me if you have any questions about these decisions.

Dennis

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