Business and Finance and Executive Committees

THE BOARD OF TRUSTEES

Temple University – Of The Commonwealth System of Higher Education
Thursday, March 22, 2001, at 3:00 p.m.
Sullivan Hall, Room 200
Liacouras Walk and Berks Mall

PUBLIC SESSION

MINUTES

3:00 p.m. – PUBLIC SESSION

PARTICIPANTS--PUBLIC SESSION

Trustees: David Adamany, Theodore Z. Davis (by telephone), Nelson A. Diaz (by telephone), Louis J. Esposito (by telephone), Lewis F. Gould (by telephone), Jr., Clifford Scott Green (by telephone), Lacy H. Hunt (by telephone), Lewis Katz (by telephone), Joseph W. Marshall, III, Daniel H. Polett, Milton L. Rock (by telephone)

University Counsel: George E. Moore

Administration and Staff: Corrinne A. Caldwell, Lawrence C. Connolly, Martin S. Dorph, Timothy C. O'Rourke, Richard Rumer

Trustees Unable to Participate: Joan H. Ballots, Michael A. Cibik, Peter D. DePaul, Murray G. Dickman, Richard J. Fox, Howard Gittis, Mitchell G. Leibovitz, Peter Liacouras, Arthur G. Raynes, William W. Rieger, Edward H. Rosen, Jane Scaccetti, Anthony J. Scirica, James H. Shacklett, III, Isadore A. Shrager, James S. White

Administration and Staff Unable to Participate: James C. Bausman, Jr., Paul H. Boehringer, Richard A. Chant, Richard M. Englert, Linda T. Frazer, Thomas R. Freitag, Marvin J. Gerstein, Robert H. Lux, Leon S. Malmud, Thomas F. Maxey, David P. O'Brien, Arthur C. Papacostas, Catherine M. Paster, Robert J. Reinstein, Valaida S. Walker

In absence of Chairman Gittis and Vice-Chairman Scirica, the Honorable Theodore Z. Davis called the meeting to order, and stated that the meeting would go into Executive Session for a briefing on the status of funding for capital projects.

The committees met in Executive Session in 200 Sullivan Hall.

3:00 p.m. -- EXECUTIVE SESSION – Trustees Only

PARTICIPANTS--EXECUTIVE SESSION

Trustees: David Adamany, Theodore Z. Davis (by telephone), Nelson A. Diaz (by telephone), Louis J. Esposito (by telephone), Lewis F. Gould (by telephone), Jr., Clifford Scott Green (by telephone), Lacy H. Hunt (by telephone), Lewis Katz (by telephone), Joseph W. Marshall, III, Daniel H. Polett, Milton L. Rock (by telephone)

University Counsel: George E. Moore

Staff and Administration: Martin S. Dorph

Trustees Unable to Participate: Joan H. Ballots, Michael A. Cibik, Peter D. DePaul, Murray G. Dickman, Richard J. Fox, Howard Gittis, Mitchell G. Leibovitz, Peter Liacouras, Arthur G. Raynes, William W. Rieger, Edward H. Rosen, Jane Scaccetti, Anthony J. Scirica, James H. Shacklett, III, Isadore A. Shrager, James S. White

At approximately 3:35 p.m., the meeting went into Public Session, with the staff and public attendees being invited into 200 Sullivan Hall to observe via conference call speakerphone.

3:35 p.m. -- PUBLIC SESSION

RECOMMENDATIONS FOR ACTION:

1. Approval of Minutes of February 22, 2001

On motion duly made and seconded, the minutes of February 22, 2001, were approved as distributed.

2. Short Term Capital Borrowing – University Funding Obligations, Series of 2001

Mr. Dorph explained the history of the University's issuance of these short-term notes as set forth in Agenda Reference 2. Dr. Hunt stated that this was an important program for the University, and asked Mr. Dorph to advise the committees how much it had brought to the bottom line of the University since its inception. Mr. Dorph responded that over 11 years, it had brought $16.5 million to the bottom line. Its future success depended on the difference between taxable and tax-exempt interest rates. Dr. Hunt stated that in his opinion the University should continue with this program.

Upon motion duly made and seconded, the Business and Finance Committee and the Executive Committee, the latter acting on behalf of the Board of Trustees, authorized the issuance of one-year University Funding Obligations in an amount not-to-exceed $85,000,000, through PNC Capital Markets, and adopted the Resolution set forth in Agenda Reference 2.

3. Declaration Regarding Reimbursement of Capital Through Debt Financing

Mr. Dorph stated that this resolution would permit the University to utilize this program next year for purchases made over the course of this year. The IRS required an advance declaration.

Upon motion duly made and seconded, the Business and Finance Committee and the Executive Committee, the latter acting on behalf of the Board of Trustees, adopted a resolution declaring an official intent of the University to reimburse itself for certain capital expenditures by incurring debt, and taking other actions substantially as set forth in Agenda Reference 3.

4. Authorization to Issue Refunding Bonds

Mr. Dorph advised the committees that this resolution would authorize the issuance of refunding bonds in the amount of approximately $57 million, to replace the outstanding balance of the 1991 University Revenue Bonds. Mr. Dorph added that at today's rate, the University would realize a present value saving of $3.7 million if it issued fixed rate debt, and approximately $6.6 million if it issued synthetic fixed rate debt. He stated that there were two issues for the committees to decide. The first is whether to issue the refunding bonds to realize approximately $3.7 million in savings, and the second is whether to enter into an interest rate swap agreement with Morgan Stanley to obtain the potential additional $3 million in savings.

Dr. Hunt stated his strong opinion that the University should defer this issuance, as he believes that rates will be substantially lower six months from now. Mr. Dorph responded that at each coupon date, the University would lose $300,000 to $400,000 in anticipated savings, and that a coupon date was approaching in April. That effect from delaying the issuance would have to be considered as an offset to additional savings to be realized if rates in fact go lower. He added that President Bush's tax rate reduction plan, if implemented this year, also would diminish the value of tax-exempt bonds, and might have some effect of the pricing of the bonds. Dr. Hunt stated that tax rate changes would have an effect only at the margin.

Dr. Hunt also stated emphatically that in addition to being opposed to going forward at any time within the next six months, he is opposed to the "synthetic fixed" option. It introduces an extra risk for the University.

Mr. Dorph stated that the interest rate swap market is now well established, and the University has obtained the opinion of an outside consultant, Fairmount Capital, regarding the risk factor in this particular transaction. The University administration is not listening only to the investment bankers.

Dr. Hunt stated that the additional risk being introduced with the "synthetic fixed" aspect is that the party who agrees to pay the variable rate will stop paying because of financial difficulties.

Mr. Dorph stated that Morgan Stanley is rated AA today. Dr. Hunt responded that in 1990, Namuro was AAA-rated and had much of this market. Namuro went bankrupt due to its reliance on spot credit trading. Mr. Dorph stated that we have added a collateral protection requirement that is bankruptcy-proof under recent amendments to the Bankruptcy Code. Dr Hunt responded that what may appear to be bankruptcy-proof may need to be litigated, and this aspect of the issuance opens up an entirely new risk for Temple University. That risk is letting another party stand in for the University's repayment obligations.

Mr. Diaz asked what other institutions are doing the "synthetic fixed" kind of financing. Mr. Dorph responded that this is not a new transaction for the marketplace, and that Delaware State University and others have been using it.

Dr. Hunt repeated that he believes the University should defer the issuance for at least six months, and that it will net additional savings by deferring.

Dr. Adamany stated that Dr. Hunt is correct that the University may benefit from lower rates if the issuance is deferred, but the size of the transaction also goes down at the same time.

Mr. Dorph stated that the University has other investment opportunities if interest rates continue to fall.

Upon motion duly made and seconded, the Business and Finance Committee and the Executive Committee, the latter acting on behalf of the Board of Trustees, authorized the officers to enter into financing arrangements with the Pennsylvania Higher Education Facilities Authority ("Authority") to provide funds for refunding the outstanding balance of the Authority's 1991 Temple University Revenue Bonds, substantially as set forth in the Resolution attached in Agenda Reference 4, including the authorization for the officers to utilize the "synthetic fixed rate structure" with Morgan Stanley Capital Services Inc. or other party as provided in the draft resolution. The revised Resolution is attached as Supplement I to the copy of these minutes on file in the office of the Secretary.

Dr. Hunt voted against the recommendation.

5. **<u>Replacement of Temple Towers Roof</u>**

Upon motion duly made and seconded, the Business and Finance Committee and the Executive Committee, the latter acting on behalf of the Board of Trustees, upon the recommendation of the Campus Planning and Plant Management Committee (March 9, 2001), authorized the officers to replace the existing roof system at Temple Towers at a cost not-to-exceed $480,480, with the Funding & Financing Source being Housing R& R Funds Center #800-7730-105004000.

6. **<u>Installation of Sprinkler System in Peabody Hall</u>**

Upon motion duly made and seconded, the Business and Finance Committee and the Executive Committee, the latter acting on behalf of the Board of Trustees, upon the recommendation of the Campus Planning and Plant Management Committee (March 9, 2001), authorized the officers to install a sprinkler system in Peabody Hall at a cost not-to-exceed $575,874, with the Funding & Financing Source being Housing R&R Funds Center #800-7730-105007000.

NEW BUSINESS

7. Authorization to Use Budgeted Contingency Funds for Activities and Travel Related to Post-Season Intercollegiate Basketball Tournaments

Dr. Englert and Mr. Moore provided the background on the expenses that would be incurred in connection with transporting students and others to the post-season basketball play of the men's and women's teams. Dr. Adamany stated that the amount of favorable publicity that the University has received from our student-athletes' successes is inestimable.

Upon motion duly made and seconded, the Business and Finance Committee and the Executive Committee, the latter acting on behalf of the Board of Trustees, authorized the officers to use funds in the University Contingency line in the fiscal year 2001 Operating Budget, in an amount not-to-exceed $350,000, for costs related to travel and campus activities for students and others in connection with the men's and women's intercollegiate basketball post-season tournaments.

ADJOURNMENT