A CALLED MEETING
of the
GEORGIA HIGHER EDUCATION FACILITIES AUTHORITY

February 19, 2015

The Georgia Higher Education Facilities Authority (the "Authority") held a called board meeting on February 19th at 1:30PM in the offices of the Georgia State Financing and Investment Commission, 270 Washington Street, Suite 2141, Atlanta, Georgia. Gary Bishop (Vice-Chair of the Authority) and member Dick Anderson were present in person and members Tommy David and Teresa MacCartney participated in the meeting via telephone conference call. Others in attendance were: Lisa Javorka with the Georgia Department of Law; Diana Pope, Lee McElhannon and Kelly Zurbrugg with the Georgia State Financing and Investment Commission ("GSFIC"); Susan Ridley, Cynthia Alexander, and Regina Travis with the Board of Regents of the University System of Georgia ("BOR"); and Ted Beck with the Governor's Office of Planning and Budget.

Call to Order and Election of Officers for Fiscal Year 2016

The meeting was called to order at approximately 1:30PM by Vice-Chair Gary Bishop. The first item on the agenda was to elect officers for FY 2016, with terms to commence immediately upon election. Nominations were made as follows: Dick Anderson nominated Gary Bishop to serve as Chair. The motion was seconded by Teresa

MacCartney. There being no discussion, the motion passed unanimously. Dick Anderson then made a motion to nominate Teresa MacCartney to serve as Vice-Chair. Chair Gary Bishop seconded the motion. There being no discussion, the motion passed unanimously. Lee McElhannon was nominated by Dick Anderson to serve as Secretary and Treasurer. Teresa MacCartney seconded the nomination. There being no discussion, the motion passed unanimously.

Approval of Minutes

Chair Gary Bishop stated that the second item on the agenda was to approve the minutes from the December 18, 2013 Authority meeting which had been provided to them prior to the meeting. Teresa MacCartney made a motion to approve the minutes; Tommy David seconded the motion; a vote was taken and the motion to approve passed unanimously.

Presentation of BOR Housing P3 Initiative with Emphasis on the Defeasance of the Georgia State University Project (2008 Bonds), East Georgia College Project (2010A Bonds), and Coastal College of Georgia (2010A Bonds).

Chair Gary Bishop asked the Authority to delay agenda item IV until after the presentation of agenda item V and called upon Susan Ridley from BOR to present this item. Ms. Ridley informed the members that in April 2014 the BOR issued a Request for Qualifications for Phase I of its planned P3 Housing Initiative ("Phase I") and in June 2014 three bidders - Balfour Beatty, Corvias Campus Living and EdR Realty Trust - were prequalified to bid on Phase I. She noted that Phase I includes housing facilities on nine campuses and just under 10,000 beds of both existing and potential new student housing. Three of the projects are GHEFA projects: Georgia State University, East Georgia

College, and College of Coastal Georgia. She stated that these campuses have been part of this procurement from the outset. In November 2014 Corvias Campus Living was chosen as the Phase I contractor to develop, construct, manage, and maintain student housing at the nine Phase I institutions. Ms. Ridley noted that Corvias currently is working to secure financing and they anticipate financial close in April 2015. This financing will be for the purchase of the current beds, including the defeasance of outstanding bonds associated with roughly 6,200 beds of existing housing that are part of the portfolio, and almost 3,800 new beds at Phase I campuses.

Member Dick Anderson asked if Corvias will take ownership of those new buildings. Ms. Ridley answered that Corvias will have a leasehold mortgage interest in the properties, but that BOR will retain title to both the underlying land and the structure itself. When any outstanding bonds on existing facilities are defeased, the defeasance funds will be placed into escrow on behalf of the bond-owners. The defeasance funds will pay the debt service on the defeased bonds through the first call date and also will fund in full the call of the outstanding bonds. The Foundations will terminate their rental agreements with BOR at such time and their lease agreements will be terminated. That property will then revert back to BOR and BOR will lease that property to Corvias as per the concession agreement.

Mr. Anderson asked if Corvias will earn gross revenues from students. Ms. Ridley stated the gross revenues will accrue to Corvias. Corvias will make rental payments to BOR for the use of the facility and to compensate BOR for the services that BOR provides to the students in those facilities. BOR will retain all the student facing services: those things that are important for recruitment, progression and retention of students in on-campus housing, which includes all the resident life. All the programing that occurs in the facility will continue to be provided by the institution in addition to things like security, grounds-keeping, and rent collection. Rent will be collected by BOR on behalf of Corvias and then disbursed to Corvias. Corvias is a very strong partner and their bid was higher than the other two bids in terms of the amount and certainty of those rental payments over the life of the concession agreement. That was one of the most important considerations for BOR, as well as Corvias's well demonstrated capabilities in the operations and maintenance of facilities and their ability to manage the life cycle costs in a more efficient manner than BOR.

Mr. Anderson asked what the total bed count is for the entire system. Ms. Ridley responded that there are 60,000 beds in the total system. Mr. Anderson then commented 10,000 beds in Phase I was a significant portion of the total bed count. Ms. Ridley agreed and added that BOR is planning to roll out Phase II later this year which will convert even more beds to P3.

Mr. Anderson asked if any other legislation is required to proceed with Phase II. Ms. Ridley said that no additional legislation was needed. BOR was able, with support of the Governor, the General Assembly, and others, to have a question placed on the ballot last fall which retains the property tax exemption associated with any long term lease of either on-campus housing or on-campus parking. This gives BOR the ability to consider P3's for future parking initiatives as well as for housing. BOR received 76% support of the voters. Also, following the defeasance of the GHEFA projects included in Phase I, there may be other GHEFA projects included in subsequent phases.

Tommy David asked if there was a list available for the Phase II projects. Ms. Ridley said that BOR is in the very preliminary stages of due diligence for Phase II, but a list of Phase II projects should be available sometime in May. BOR is looking at the net operating income of all the housing in the system and any debt outstanding on the existing assets, as well as talking with all of the campuses about their readiness to participate in something like this. BOR has several campuses that are in various stages of consolidations, so that is one of the many factors which have to be considered.

Mr. Anderson asked if BOR will build more facilities by the P3 process, or is it that they are mainly turning over facilities that exist today and having professional management for those facilities to provide better services and outcomes - what is the value proposition. Ms. Ridley answered that BOR expects to see a larger percentage of existing beds in Phase II. BOR was aggressive with respect to developing housing during the last decade when the enrollment outlook was for more enrollment growth than it is now, so BOR is being very careful about building new housing. BOR is assessing the demand and in this model it is the private sector that is at risk for occupancy in the facilities. BOR has had some 3rd party marketing studies conducted as part of the Phase I due diligence. Corvias did their own due diligence. The private entities will be careful, perhaps more so than BOR was, in deciding where and when to build the new housing. The way the concession is structured for each of the campuses in each individual phase, the private partner has the right of first refusal to build the new housing on that campus over the term of the 65 year concession. If a high growth enrollment trend resumes, perhaps there will be more building, but with the moderate growth level currently, there are not expected to be a lot of new beds added to the system. In this first phase, Georgia State University already is tracking that there were 800 students on the waiting list this time last year for housing and this year it is tracking 600 students ahead of that. If Georgia State University fills the new beds currently under construction, it may see new development of additional housing next year. Several other campuses also are very optimistic that they will reach 100% occupancy soon and that they will have demand for additional beds in the near future.

Dick Anderson congratulated Ms. Ridley on the progress with the process.

Tommy David stated that he has heard from some of the bigger institutions that they have not completely bought in to this undertaking and they will need a little more time to consider it, but he commends BOR for being able to negotiate such a good deal with a strong company for Phase I.

Presentation of Refunding Opportunity for the series 2008 Bonds; Consideration of Commission (the "Commission") to Issue a Request for Proposals (the "RFP") and Appointment of a Commission RFP Committee for the Selection of a Bond Underwriting Team and Authorization to Proceed with a Refunding Bond Issue, Subject to Parameters.

Chair Gary Bishop called on Lee McElhannon from GSFIC to present agenda item VI. Mr. McElhannon said that the series 2008 Bonds in an amount of just under $100 Million were issued for the construction of eight projects at seven institutions, one of which was the Georgia State University housing project. The interest rates in today's market are such that a refunding of the 2008 Bonds makes economic sense. The potential savings currently are projected at 10% on a net present value basis. 10% is above GSFIC's 5% guidelines for the State's bonds, which is the target level that many other issuers also use. The proceeds from the refunding bonds would be used to establish an escrow account which would pay the debt service on the 2008 Bonds to their June 15, 2018 call date and at that time all the refunded bonds would be paid and retired. When refunding bonds are issued the refunded bonds come off the books and are replaced by the refunding bonds with the debt service for the new bonds being less than the refunded bonds resulting in the referenced savings.

Mr. McElhannon said that one reason they wanted BOR to discuss the Housing P3 Initiative before this discussion was to clear up any questions as to what impact Georgia State University's involvement in Phase I would have on the refunding. As Ms. Ridley reported, Corvias will be required to set aside in an escrow account the amount necessary to pay the debt service for the Georgia State University housing project and when that occurs, the refunded bonds are no longer considered to be outstanding and will come off the books meaning that fewer refunding bonds have to be issued. Assuming Phase I goes forward to financial close with Corvias, GSFIC will try to time the refunding bonds issue so that it closes either concurrently with, or just as soon as possible after, the P3 closing.

Mr. McElhannon referred the Board to the resolution found in their meeting books. The resolution will serve as GHEFA's official communication to GSFIC for requesting that: (1) GHEFA be permitted to issue a Request for Proposals (the "RFP") for underwriters for an issue of refunding bonds, (2) that GSFIC create and appoint a GSFIC RFP Committee to evaluate the submitted underwriter proposals and select the refunding bond underwriting team, and (3) that GSFIC authorize GHEFA to proceed with the refunding bond issue subject to the parameters outlined in the resolution. This resolution also asks that GSFIC waive its current policy requirement regarding authority bond issues so that the refunding bond issue would be allowed to have a rating of "A" rather than "AA.".

Mr. McElhannon also stated that two additional meetings of the board will be required prior to the issuance and closing of the refunding bond issue. The first meeting will be to adopt a resolution for pre-validation of the refunding bonds and the other meeting will be when the bonds have been marketed to approve a bond purchase agreement between the Authority and the underwriters of the bonds.

Chair Gary Bishop commented that if the Authority moves quickly to do this refunding the savings will be considerable. A motion was made by Teresa MacCartney and seconded by Tommy David to approve the Resolution; the motion was approved unanimously.

Tommy David made a suggestion that the Authority conduct the necessary meetings by email or conference call to expedite the process to be able to price the bonds while the savings are still at very high levels. Mr. McElhannon said that staff and the financing team will do everything possible to expedite the process and facilitate the necessary meetings of the Authority.

Presentation of FY 2014 Revenue, Expense and Enrollment Reports for GHEFA's series 2008, 2009A and 2010A bond issues

Chair Gary Bishop asked the members to go back to agenda item V and called on Cynthia Alexander of the Board of Regents to present the reports. Ms. Alexander asked that the members turn their attention to the presentation found in their board books. There are sixteen projects in total for the three GHEFA bond issues. As shown on page two of the presentation, ten of the projects met the self-liquidating requirement with a coverage ratio of 1.0x or higher, but six of the projects did not reach the 1.0x coverage ratio. As in FY 2013, there were two primary factors that contributed to this result. The first and most significant factor was that several institutions still are experiencing declining enrollments. The second factor is BOR's goal to minimize fee increases for those projects that are having challenges, even as they address the challenges by other means such as cross-subsidy from other auxiliaries, project expense reductions, or use of prior year project reserves. Only two projects in the GHEFA portfolio (Bainbridge College's student center and College of Coastal Georgia's student center) were granted a fee increase for fall 2014/FY 2015. All leases were paid in full and on time in compliance with all legal and financial requirements. BOR is nearing completion of two initiatives, PeopleSoft based accounting and construction of a web-based database, which should improve accuracy, consistency, and timeliness of reporting for these projects.

During FY2013, BOR had a challenge with defective work on the University of North Georgia's Gainesville campus parking deck; the work was remediated at the expense of the design-build firm and that project was put back into operation within a several months. Remediation of minor defects also was completed on Dalton College's parking deck and Southern Polytechnic's parking deck at the expense of the design-build firm. No other defective work has appeared on any of the GHEFA projects.

Ms. Alexander expressed BOR's commitment to review and understand the conditions of all the facilities in the PPV portfolio, which includes the GHEFA projects. The GHEFA 2008 facilities will be inspected spring 2015, and the GHEFA 2009 and GHEFA 2010 facilities will be inspected spring 2016. Based on the results of the inspections, action plans will be developed as necessary and appropriate.

Ms. Alexander also informed the members that Moody's Investors Service recently upgraded the ratings on GHEFA's bond issues to A1 with a stable outlook from A2.

Ms. Ridley reminded the members that the 2008 bonds were at risk for a downgrade with the situation at Fort Valley State University, but after Moody's considered the proactive work that BOR has done the last couple of years in managing the entire PPV portfolio from the central office and looking at alternative ways to help these projects become self-efficient, the result was the rating upgrade that Ms. Alexander mentioned. Moody's rating now is more in line with Standard and Poor's rating rationale and methodology which results in a narrower band of ratings for BOR's institutions.

Ms. Alexander directed the members to the FY 2014 Revenue and Expenses Performance Summary found in their books and explained that she will focus on those projects which had less than a 1.0x coverage ratio, but she would be glad to answer any questions about any project. Only two projects funded by the 2008 bonds did not meet the minimum 1.0x coverage ratio, but when compared to FY2013's results there is improvement.

Fort Valley State University's project achieved a 0.62x coverage ratio which is a direct result of the decline in enrollment. Fort Valley State University has had three consecutive years of enrollment decline. This particular project is a stadium and student center that is supported by two primary sources of revenues: a student fee for the stadium, and revenue from the dining operations in the student center. Because of the decrease in enrollment, the revenues have not reached the projected levels, but they have been able to backfill the shortfall over the last several years with revenue from the bookstore auxiliary. This particular institution is number one on BOR's watch list.

Georgia College and State University's theater/bookstore did not achieve a 1.0x coverage ratio, either. The school has had challenges with their bookstore operation over the last two years. BOR has realigned their expenses so that they are directly related to the facility operationally; there also were some areas that were not generating revenue as originally projected which has been rectified. The bookstore contract was rebid, and they expect to see an increase in bookstore revenues. BOR expects that this project will achieve a 1.0x or greater ratio for FY 2015.

Ms. Alexander noted that a real positive among the GHEFA 2008 projects is University of North Georgia's parking deck in Gainesville. This campus was originally part of Gainesville State College which merged with North Georgia College and State University to become the University of North Georgia. As a result, there are multiple campuses and multiple locations so the structure of the parking fee was changed to incorporate all the locations. Now more students are attending classes at the Gainesville campus and the result is an increase in the allocated portion of the student parking fee and the coverage ratio for this project increased to 1.5x.

Mr. Anderson asked if the owners of the bonds and the rating agencies are provided with these details and if so, how do they react to the negative items such as the situation at Fort Valley State University. Ms. Ridley replied that the move that Moody's recently took was to more heavily weight the BOR's rental agreement, which is the security for all the GHEFA projects as well as all the public private venture projects, not the student fees or direct project revenues. Prior to this recent change, Moody's gave more weight to the individual institution and looked very closely at the financial statement for the school, not just the performance of the project, which had resulted in a wider band of ratings for the various institutions with the result being a rating of AA+ for a University of Georgia or a Georgia Tech all the way down to the BBB or the Baa1 for Fort Valley State University. Now that Moody's has transitioned to a more heavily weighted system wide credit, Fort Valley State University is in the A2 category, similar to the way Standard & Poor's views it. This type of information is reported to both Moody's and Standard & Poor's; they are interested and it does matter to them how these projects are performing, but they know ultimately BOR is tracking it, is going to stand behind them, and is going to address problems as they arise. Mr. Anderson commented that they are interested in how BOR manages the more risky projects.

For the 2009 bonds, Ms. Alexander stated two of the three projects in that pool had challenges in FY2014. Bainbridge College's project is a student center that was constructed on their campus and unfortunately Bainbridge College is one of the institutions that experienced a third consecutive year of enrollment decline. BOR has worked with the campus to analyze the expenses and understand where the headcount was in enrollment, and where they were financially. The school submitted a request for a fee increase which was approved and implemented this past fall. The original fee was $125 which has been increased to $225 beginning fall 2014. BOR is anticipating that in FY2015 this fee will get the school within $100,000 of breakeven. BOR is carefully monitoring this situation and is optimistic that this fee will be sufficient.

Mr. Anderson asked is this geographically driven in that there are less people than was anticipated or is it due to students migrating somewhere else. Ms. Ridley stated that demographically the southern part of the state has a lot fewer high school graduates than the northern half of the state.

Mr. Anderson asked if the number of area high school graduates was less than was anticipated. Ms. Ridley noted that BOR has increased the admission standards for this type of institution. Bainbridge is an access institution, and with the reduction to only two learning support classes for incoming freshmen, there has been a significant drop off at several of the access institutions and state colleges. When that is combined with the demographic challenges in South Georgia as well as increases in marketing and recruiting efforts of other colleges that are closer to home for a lot of students that are looking for this type of educational experience, the result is what has occurred at Bainbridge College. Ms. Ridley noted that there are no dorms located at Bainbridge College's campus.

Chair Gary Bishop asked if there have been any recent changes in leadership at Fort Valley State University and Bainbridge College. Ms. Ridley replied that President Griffith is in his second year at Fort Valley State University and the president at Bainbridge has been there four years. BOR has confidence in the leadership at these two institutions.

Ms. Alexander said that the Columbus State University student recreation center project's coverage ratio declined to 0.9x for FY 2014. BOR is working with the school to evaluate expense reduction options and other alternatives to get the school to a 1.0x coverage ratio. The school did request a fee increase for FY 2016, but after BOR staff reviewed the request it was determined there was still room for expense reductions and they decided to wait one more year before a fee increase was adopted to see if changes already made and the additional expense reductions being implemented would be sufficient.

Tommy David stated that in his opinion there should be a premium paid for online courses because you get to take it anytime you want and it is a significant convenience to the student. There should be a way to capitalize on the value of online courses. Ms. Ridley said she appreciated the comment and BOR is looking very carefully at pricing strategies for online students because BOR wants to expand and increase enrollment to provide access for students, particularly students that already are in the work force and students that are coming back to complete their degrees. BOR wants to be able to provide those students affordable access through online means, but at the same time BOR needs to enhance its recruiting and marketing of the traditional on-campus experience.

Ms. Ridley said that she believes that BOR can continue to be competitive in that space as well, but in terms of the pricing for online students BOR doesn't want to decrease the affordability of those educational opportunities by charging for services that they are not using. It is taking a little time for BOR to come up with alternative strategies for supporting these projects that are designed to serve the on-campus student in this changing environment.

Mr. McElhannon noted that Dr. Mescon recently left Columbus State University and asked as to the status of replacing him. Ms. Ridley replied that the search currently is underway. Tom Hackett, the interim President, is a fantastic leader there on campus. The search has been narrowed recently and they are on schedule to have a replacement named in the summer.

Ms. Alexander said that with respect to the 2010 bonds, the same two projects that did not reach 1.0x coverage ratios in FY 2013 had a similar result in FY 2014. BOR is seeing this situation across its entire PPV portfolio, not just in GHEFA projects, that it generally takes more than one year for a problem to be identified and rectified. BOR is working to be preemptive in making sure that projects do not get into such situations.

At the College of Coastal Georgia the student center fee was increased to $125 from $100 effective fall 2014. The problem of actual revenues being significantly below the initial projections is directly related to lagging enrollment at the school. There are substantial project reserves from this project which were used to fund the shortfall.

Ms. Alexander stated that Savannah State University's student center and stadium project is another project where the coverage ratio was below 1.0x for two consecutive years. For this project, the problem appears to be on the expense side and BOR is helping the school address this problem. This is a trend seen in many of the student centers throughout the system as there often are multiple uses in those facilities as well as multiple sources of revenue and many of the schools are not getting the expense and revenue allocations correct. For Savannah State University the campus has multiple dining facilities and the revenue associated with those dining facilities has not been attributed correctly. Although they were short, there was more than ample reserve to cover the shortfall.

Ms. Alexander then referred the members to the summary found on page 24 which outlines BOR's asset management groups' priorities for 2015 and 2016. This concluded her presentation.

Mr. Anderson asked if GHEFA is on the upper end of its authorized capacity for issuing bonds. Ms. Pope replied that the original authority was $300 million, but that was raised to $500 million so GHEFA has slightly more than $200 million of available capacity. The refunding bonds will replace the principal outstanding on the original bonds and thus will not diminish the available capacity. Ms. Ridley said that BOR currently does not have any PPV projects in the pipeline. Mr. McElhannon added that when the three GHEFA projects come off as a result of being converted to P3 status in Phase I, this will result in additional available capacity.

<u>Update on the GHEFA FY 2014 Audit (informational purposes only)</u>

Mr. McElhannon presented item VIIA in their books which is the GHEFA FY 2014 Audit. Mr. McElhannon noted that the GHEFA audit was a clean audit with no findings. There was no discussion by the board members on this item.

Update on the FY 2014 Continuing Disclosure Documents (Annual Report for all three issues, Consolidated Audit for all three Foundation LLCs, and the Financial Reports for all Institutions with Projects Funded by the 2008 Bonds, the 2009A Bonds, and the 2010A Bonds

Mr. McElhannon presented item VIIB and stated these are items that BOR makes available to the rating agencies and the bond owners as required by the continuing disclosure certificate. All the reports can be found on the eBoard system. There was no discussion by the board members on this item.

New Business and Adjournment

Mr. Bishop asked if any Authority member had any other business to discuss. There being no additional business, Teresa MacCartney made a motion to adjourn the meeting. Tommy David seconded the motion. The meeting was adjourned at approximately 2:47PM.

Gary Bishop
Chair

Lee McElhannon
Secretary and Treasurer